

1968 Annual Report **NORFOLK AND WESTERN RAILWAY COMPANY**



THE YEAR IN REVIEW

Earnings Increase

N&W-C&O Merger Plan Progresses

System Expands in Miles and Assets

Freight Revenues Increase

Real Estate Diversification Continues

Operating Records Set

Coal Loadings Set Record at Lamberts Point, Norfolk

The cover wheel depicts the two main sources of N&W income—merchandise and coal freight. The aerial photograph of the coal hoppers was taken at Norfolk; bottom half of wheel is a scene from the Roanoke classification yard.

Grumley

363-3807

2 p.m.

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FOR IMMEDIATE RELEASE

SEPTEMBER 10, 1969

TORONTO, ONT., Sept. 10 -- A U. S. railroad executive, in Toronto for business conferences, today forecast increased growth of commerce between Canada and United States to the benefit of the economies of both countries.

Charles A. Thoma of Cleveland, Ohio, vice president of Norfolk and Western Railway, was here to confer with local industrial, business and civic leaders.

Lake Region

Among other subjects, they discussed mutual interests in plant location developments and how N&W can assist Canadian industries in expanding into U. S. markets.

on Lake Erie

Mr. Thoma said that Norfolk and Western, in conjunction with Canadian railroads and steamship lines, provides an important transportation link between major production and market areas of Canada and United States.

As part of its 11,570-mile system, N&W operates a 239-mile line through southern Ontario as a joint facility with Canadian National Railway. It extends between Fort Erie and Windsor and is the longest joint trackage operation by two railroads on the North American Continent.

The arrangement dates from an 1897 agreement between the former Wabash Railroad (now part of N&W) and the former Grand Trunk Railway Company of Canada (now part of CN).

In addition, N&W interchanges traffic with Canadian railroads at more than a dozen points. On Lake Erie, N&W has coal docks at Sandusky, Ohio and ore docks at Huron, Ohio, both busy ports for lake and seaway commerce.

Norfolk and Western has sales and service staffs headquartered at Toronto and Montreal.



(MORE)

1. Increased tonnages of specific grades of U. S. coal will be used in Canada, particularly for steel-making and power generation; *into lake area*
2. Larger volumes of Canadian ores and minerals, such as potash, will be required in the United States;
3. More and more automobiles, vehicle parts, steel products and other *which* commodities will move between the two countries. *why?* *why?*

"The economies of our countries are increasingly interdependent and complementary," Mr. Thoma observed. "In some areas we compete and in others we supplement each other. Either way, such commerce creates jobs, payrolls and investment, strengthening both countries."

He said that last year Norfolk and Western handled several million tons of coal for Canadian steel companies and industrial and utility plants, and more than 80,000 carloads of other freight moving between the two countries.

Mr. Thoma also pointed out that Canadian industry has benefited from N&W's huge improvement program that by the end of this year will total more than two-thirds of a billion dollars in slightly over five years.

In this period Norfolk and Western has placed in service about 37,000 new or rebuilt freight cars, including many of special-purpose design for use by the automobile industry; damage-free cars for merchandise traffic and high-capacity cars for moving bulk commodities, such as coal, ore, minerals and grain. In addition, N&W has purchased about 500 new diesel locomotives.

Also of great importance to Canadian industry, he said, is N&W's new ground storage facilities at its coal docks at Sandusky, Ohio, through which some seven million tons a year are loaded into lake vessels.

The storage facility, which can accommodate 1,200,000 tons of coal, makes possible year-around mining of lake coal. In addition, ship turn-around time during the lake season has been reduced because boats can be loaded simultaneously from the storage area and from railroad cars.

Early this season a Canada-bound cargo vessel was loaded with 26,225 tons of coal in 5 hours and 10 minutes, compared to 10 to 12 hours required before the new facilities were installed at Sandusky.

An electric infra-red car thawing facility there permits coal to be dumped for storage throughout the winter. It is designed to thaw twenty 100-ton cars per hour under winter conditions.

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NORDIC Mines & Investments Limited

REPORT TO THE SHAREHOLDERS

JULY, 1969

NORDIC MINES & INVESTMENTS LIMITED

SUITE 2200, P.O. BOX 62 • 401 BAY STREET • TORONTO 1, ONTARIO • 362-1997

To the Shareholders:

We welcome your participation in Nordic Mines & Investments Limited.

Since many of you were unable to attend the special general meeting of shareholders on May 16, 1969, at the company's new head office at 401 Bay Street, we would like to inform you about the reorganization of your company which was approved at the meeting, and more recent developments, including our consulting engineer's latest report of June 19, 1969, on the Roberts Township group of uranium properties in the Sudbury area.

REVIEW OF SHAREHOLDERS' MEETING

Two new directors have been appointed: W. D. Patterson and R. Oglesby. Miss Charlotte Orr, a director and secretary-treasurer of the company, resigned as treasurer but remains as secretary of the company. Mr. Patterson was appointed treasurer.

At the same special meeting a resolution authorized the company to apply for supplementary letters patent:

- a) decreasing the authorized capital of the company from 5,000,000 shares having no par value to 3,033,330 shares (no par value) through the cancellation pro rata of 1,966,670 shares (no par value) issued and outstanding without repayment of capital; and
- b) increasing the authorized capital of 5,000,000 shares by the creation of 1,966,670 shares without par value ranking pari passu in all respects with the 983,335 shares issued and outstanding on the decrease of the authorized capital as aforesaid, provided that the 5,000,000 shares shall not be issued for an aggregate consideration exceeding six million dollars or such greater sum or value as the board of directors may deem expedient and as may be authorized by the Provincial Secretary.

Your directors are pleased to report that we have received our supplementary letters patent with engrossing date of June 3, 1969, from the Province of Ontario, authorizing us to carry out the shareholders' resolution of May 16, 1969, regarding the company's capital structure.

We have also received authorization by supplementary letters patent to change the company's name from Nordic Mines & Investments Limited to NORDIC INDUSTRIES LIMITED, in order to reflect the newly-diversified operation of the company.

PROGRESS AND DIVERSIFICATION

Nordic is currently well financed and enjoys two important advantages: we have promising mining properties — the potential of which is well outlined in our consulting engineer's report which follows — and we have current assets on hand in excess of \$500,000. We have now issued and have outstanding only 983,335 shares.

Having raised sufficient money to take care of exploratory and development costs of the mining properties to date, your directors' decision to use the excess cash position to purchase income-producing securities has proved highly profitable over the past few months. Securities held by Nordic for investment purposes include Slater Steel Industries Ltd., Aquacare, J. D. Carrier Shoe Company Ltd., Bowes Company Limited, Erie Diversified Industries Ltd., United Bata Resources Ltd. and Hand Chemical Industries Ltd.

Your company is among those that believe in Canada's orderly growth and broader industrial development in the immediate years ahead. We envisage a strong influx of capital to Canada in the next five years, as well as greater participation of domestic capital in our nation's enterprises. And while your company intends to carry on with the development of its mining properties, we also intend to take advantage of other opportunities for diversification in various

resource or other industries that we deem most profitable for our shareholders.

The company is in the enviable position where much of the capital needed for mining development or for future acquisitions and investments can be made available from the profits on Nordic's existing investments, as well as from the issuance of additional treasury shares.

REPORT ON URANIUM PROJECT

The following is Mr. A. S. Bayne's summary report, dated June 19, 1969, on the progress and the very promising assay returns on our uranium properties in the Sudbury district:

Your Company holds two groups of mining claims of 1,360 acres and 640 acres, respectively, accessible by road and rail only 40 miles north of the City of Sudbury, Ontario. These were acquired following field work, late in 1968, which confirmed the underlying rocks are substantially part of the north-easterly extension of the Mississagi sediments containing the uranium ores of the Elliot Lake area, 75 miles to the southwest.

A surface discovery, on the 1,360 acre group in Roberts Township, was stripped over a width of 20 feet. Samples average 4.40 lb. U₃O₈ per ton across 10 feet and 2.38 lb. per ton across the 20-foot exposure. Three core holes were drilled, proving the extension of the uranium-bearing formation to at least 200 feet vertical. A radiometric survey was carried out over an area 1/2 mile long by 1,000 feet wide, indicating a favourable uranium area over an area at least 1,700 feet long by 200 to 400 feet wide.

Snowfall in late November, 1968, prohibited further radiometric surveys. It was also known that core drilling, although yielding valuable information would not, with the currently available equipment, recover representative samples. With the rock lying from 3 to 50 feet under gravel cover, the winter months were well spent on strip, trench and pit mining to depths up to 30 feet vertical, to cross-section the

uranium-bearing strike and to obtain 'minewise' bulk samples truly representing the average uranium content over economically mineable widths.

Since heavy powered excavating and mining equipment moved on site in the middle of Roberts Township on February 10th, 1969, over 600 lineal feet of strip trenching, through overburden up to 15 feet deep, has cross-sectioned, at intervals of 100 to 300 feet, a 1,200-foot strike length of uranium-bearing formation. Total volume of gravel and boulders excavated exceeds 1,000 cubic yards. Rock mining, in the form of trenches and pits to 7-foot depths, and two vertical shafts to 30-foot depth, has cross-sectioned the 1,200-foot strike length at both ends and at three sections spaced 300 to 400 feet apart in between. Widths cross-sectioned to date are from 26 to 100 feet, and the total uranium-bearing rock mined and stockpiled for bulk sample analysis exceeds 2,000 tons. In addition, to guide exploration, numerous systematic chip samples have been cut from rock in place for assay; also 29 vertical test holes, recovering drill-cuttings for samples, were drilled 20 to 90 feet deep.

To establish an accurate check on uranium content, various samples have been analysed at three independent registered analysts; also the Laboratory Research Branch of the Ontario Department of Mines, the Department of Mines & Technical Surveys of Canada, and the Ontario Research Foundation. Large-scale bulk samples are being shipped to the Temiskaming Testing Laboratories of the Ontario Department of Mines, where they are crushed and systematically sampled by milling procedures for representative analysis.

Three bulk samples have been shipped to date, with assay returns recently received on the first shipment of 12 tons, representing the first 100 tons mined from Shaft No. 1. Following are assays on the exploratory samples and the final average assay of the relative bulk sample mill product.

TYPE OF SAMPLE	NO. ASSAYS AVERAGED	TOTAL WIDTH SAMPLED (FEET)	SAMPLE WEIGHT (POUNDS)	AVERAGE ASSAYS	
				POUNDS PER TON U ₃ O ₈	ThO ₂
Face chips & test holes	12	20	346	1.15	
Bulk Sample (B.S.-1)	48	20	23,135	1.02	0.22

A further 12 bulk samples representing over 2,000 tons broken across widths of from 26 to 135 feet, at intervals along the 1,200-foot strike length cross-sectioned to date, will require 3 to 4 months to process, owing to limited plant capacity available. In the meantime, small scale exploratory sampling is continuing in the excavations to develop an economic method of assessing average uranium content over large areas.

With the uranium-bearing rock beds tipped at 40 to 50 degrees, so exposed at surface and estimated to extend to 1,000-foot or more depth, along a known strike-length of at least 3-1/2 miles

on the claim group, we are pursuing our initial objective of proving the uranium deposits on two alternate economic bases: (a) potential ore over widths of 5 to 15 feet grading from 1.00 to 2.00 pounds U₃O₈ per ton, offering profitable underground mining commencing within 50 to 100 feet of surface; (b) potential ore over widths of 100 feet or better, grading from 0.50 to 1.00 pound per ton, profitably mineable by cheap surface strip and open-pit mining with the attendant low unit costs of preproduction development. The encouraging progress toward this objective is shown by the width-assay analysis of three partially sampled sections spaced equally along the 550-foot strike from Shafts Nos. 2 and 3.

Section	WIDTH IN FEET			ALTERNATE AVERAGES		
	From	To	Width	Chemical Assay (U ₃ O ₈) (pounds per ton)	Width (feet)	Assay (U ₃ O ₈) (pounds per ton)
C - C'	0.0	11.0	11.0	1.62	11.0	1.62
	11.0	20.0	9.0	0.49	20.0	1.11
	20.0	40.0	20.0	0.48	40.0	0.79
----- 200 feet N.E. to Section E-E' -----						
E - E'	0.0	11.0	11.0	2.07	11.0	2.07
	11.0	26.0	15.0	0.43	26.0	1.13
----- 350 feet N.E. to Section G-G' -----						
G - G'	0.0	5.5	5.5	0.87	5.5	0.87
	5.5	10.5	5.0	0.44	10.5	0.67
	10.5	15.5	5.0	1.10	15.5	0.81
	15.5	30.5	15.0	0.31	30.5	0.56
	30.5	55.5	25.0	0.39	55.5	0.48
	55.5	75.5	20.0	0.43	75.5	0.47

While sampling and assays are continuing, exploration is now starting along the 3-1/2 miles of open strike continuing N.E. - S.W. from the present worksite. Now that ground and weather conditions permit, radiometric surveys will be completed in the next two months over all the claims in Roberts and Beaumont Townships. This will be followed by drilling, surface mining and sampling by the same methods found effective to date. Mineralogical analysis and liberation studies, relative to the extraction of uranium oxide, have been started by Ontario Research Foundation, the information to date indicating favourable amenability to economic ore-dressing and extraction methods.

Current western world commitments for nuclear power has resulted in well based projections by eminent authorities, of demand for fissile fuel exceeding the supply capacity of existing uranium ore reserves by 1973. The same studies anticipate a price of \$10.00 to \$15.00 per pound for uranium oxide. If by the end of this year, exploratory work produces the encouraging results obtained in the past 5-1/2 months, your

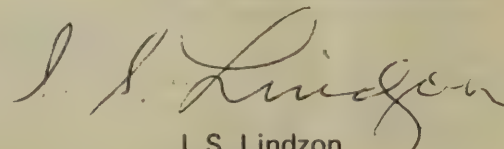
Company will have good reason to anticipate success in its mining venture.

Respectfully submitted,

"A. S. Bayne", P. Eng.

Additional information on the uranium properties and the diversification activities of your company will be forthcoming to keep you posted on the development of current programs.

On behalf of the Board,


I. S. Lindzon,
President

Toronto, Ontario
July 11, 1969.



Norfolk and Western Railway Company
STATISTICAL EDITION

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**Annual Report to the Shareowners of Norfolk
and Western Railway Company for the year
ended December 31, 1968.**

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PRESIDENT'S LETTER TO SHAREOWNERS

The year 1968 was an eventful one for the Norfolk and Western Railway. Several of the developments that occurred will shape the destiny of your railroad for many years to come.

The record in the Norfolk and Western-Chesapeake and Ohio merger proceeding before the Interstate Commerce Commission was closed on April 4, 1968. This completed a long and arduous task on the part of our Law Department and many of our officers in progressing this case to what we hope and believe will be a successful conclusion. The matter is now in the hands of the hearing examiner, and we expect his recommended report in the next few weeks.

The merger of the Norfolk and Western and the Chesapeake and Ohio will be a most important step for your company as well as for the railroad structure of the Eastern part of the United States. When our proposal is approved and consummated, a second great rail system will be created, providing balanced competition with Penn Central. This will be very much in the public interest and in the interest of our stockholders.

On April 1, 1968, the Erie Lackawanna Railway was acquired by Dereco, Inc., a subsidiary of the Norfolk and Western, and on July 1, 1968, the Delaware and Hudson railroad properties were also brought into Dereco. The acquisition of the Erie-Lackawanna and the Delaware and Hudson enlarged the Norfolk and Western Railway system to 11,757 miles, with assets of \$2,560,576,184, revenues of \$858,776,026, and earnings of \$77,831,684. This increase in the size and complexity of the Norfolk and Western system is reflected in the inclusion in this report of consolidated as well as company financial statements.

As I reported to you last year, the Norfolk and Western has entered the field of commercial and residential development of real estate. During 1968, we pursued this policy vigorously and have several projects underway, as described later in this report. Real estate ownership and development, particularly for industrial purposes, is a natural adjunct to the railroad's function. Our increased activity in this field does not mean that we are diverting our attention from the primary responsibility of your company: namely, rail transportation. Our continuing objective is to furnish the best possible rail transportation to our patrons.

In 1967, the Interstate Commerce Commission granted freight rate increases averaging about 3% amounting to approximately \$18 million additional revenues on an annual basis for the Norfolk and Western. This was not sufficient to meet the rapid rate of inflation we were experiencing, and the railroads found it necessary early in 1968 to apply to the Commission for further increases, estimated to produce on an overall basis about a 5% increase in freight revenues. A part of the request for increases was granted June 24, 1968, on a temporary basis with additional interim increases effective November 28. Both increases were finalized January 30, 1969. While these increases will produce on an annual basis \$29 million in additional revenues for the Norfolk and Western Railway Company, they still fall short of meeting our increasing wage and material costs.

During 1968, there were several work stoppages due to labor disputes in industries we serve. The major one affecting your railroad was the coal strike in October, which had a serious effect on our revenues and net income that we were not able to recoup before the end of the year.

I would like to express my deep appreciation to N&W's loyal and hardworking employees. Our continued progress during the year was the result of their dedicated efforts.



February 27, 1969

NORFOLK AND WESTERN DOLLAR

Gross Income \$656,378,382

Freight Revenue	\$613,446,818	93¢
Passenger Train Revenue	6,413,925	1¢
All Other Income	36,517,639	6¢

Disposition \$656,378,382

Payroll	\$247,037,741	38¢
Fringe Benefits	41,503,149	7¢
Material and Other Expenses	130,736,453	20¢
Equipment & Joint Facility Rents—Net	28,168,907	4¢
Depreciation	54,291,302	8¢
Taxes Other Than Payroll	33,502,939	5¢
Interest on Indebtedness	32,798,470	5¢
Rent for Leased Roads and Equipment	14,198,083	2¢
Net Income	74,141,338	11¢

SOURCE AND APPLICATION OF FUNDS

Source: \$190,848,520

Net Income	\$ 74,141,338
Depreciation	54,291,302
Proceeds from Equipment and Other Financing	53,315,000
Disposition of Capital Assets	6,639,189
Decrease in Investments in Affiliated Companies—Net	1,248,080
Decrease in Working Capital	1,213,611

Application: \$190,848,520

Dividends	\$ 55,137,868
Capital Expenditures—Including Leased Companies	72,837,032
Obligations Paid or Reacquired—Including Leased Companies	57,862,203
All Other Net	5,011,417

FINANCIAL AND OPERATIONS SUMMARY

Norfolk and Western Railway System—Consolidated

	1968	1967	1966	1965	1964
Financial					
Operating Revenues (<i>Millions</i>).....	\$858.8	\$604.6	\$624.5	\$602.0	\$562.1
Operating Expenses (<i>Millions</i>).....	617.2	425.1	418.8	398.5	374.5
Taxes (<i>Millions</i>).....	78.4	47.8	62.4	73.1	74.3
Net Income (<i>Millions</i>).....	77.8	71.5	99.3	91.1	80.4
Earnings Per Share of Common Stock:					
Based on Average Shares Outstanding [<i>Note 1</i>].....	8.47	7.80	10.70	9.72	8.57
Pro Forma—Assuming full conversion of all convertible securities [<i>Notes 1 and 3</i>].....	7.83	7.75	10.68	9.72	8.57

Norfolk and Western Railway Company

Financial					
Operating Revenues (<i>Millions</i>).....	\$641.8	\$594.2	\$614.0	\$592.5	\$558.2
Operating Ratio (<i>Per Cent</i>).....	69.7	70.0	66.9	65.9	66.5
Transportation Ratio (<i>Per Cent</i>).....	36.4	37.1	34.9	34.6	34.3
Taxes (<i>Millions</i>).....	\$59.5	\$45.7	\$60.2	\$71.2	\$73.0
Times Fixed and Contingent Charges Earned.....	2.58	2.66	3.37	3.60	3.47
Net Income (<i>Millions</i>).....	\$74.1	\$72.6	\$97.8	\$90.1	\$80.1
Net Income—Per Dollar of Operating Revenue (<i>Cents</i>).....	11.6	12.2	15.9	15.2	14.3
Earnings Per Share of Common Stock:					
Based on Average Shares Outstanding.....	\$8.07	\$7.92	\$10.54	\$9.60	\$8.53
Pro Forma—Assuming full conversion of all convertible securities [<i>Notes 1 and 3</i>].....	\$7.46	\$7.87	\$10.52	\$9.60	\$8.53
Taxes Per Share of Common Stock—Average Shares Outstanding.....	\$6.47	\$4.99	\$6.49	\$7.66	\$7.86
Dividends Paid Per Share on Common Stock.....	\$6.00	\$6.00	\$6.50	\$6.50	\$7.00†
Working Capital (<i>Millions</i>).....	\$55.0	\$56.2	\$66.1	\$76.3	\$84.2
Cash and Temporary Cash Investments (<i>Millions</i>).....	\$79.7	\$67.1	\$95.9	\$129.0	\$128.5
Book Value Per Share of Common Stock.....	\$111.14	\$110.25	\$109.20	\$105.87	\$103.50
Capital Expenditures—Excluding purchase of Sandusky Line, and equipment of P. & W. Va. and Wabash (<i>Millions</i>).....	\$72.8	\$123.0	\$154.6	\$149.8	\$111.0
Number of Shareowners.....	70,092	67,725	65,539	62,665	62,594
Shares of Common Stock Outstanding (<i>Thousands</i>)....	9,398	9,062	9,222	9,300	9,288

†Includes \$1 per share special dividend paid immediately prior to Nickel Plate merger.

Operations

Revenue Tons Carried One Mile (<i>Billions</i>).....	51.4	49.0	50.2	48.3	45.4
Average Revenue Tons Per Freight Train.....	2,449	2,399	2,322	2,201	2,112
Average Revenue Per Ton Mile (<i>Cents</i>).....	1.194	1.149	1.154	1.156	1.155
Gross Ton Miles Per Freight Train Hour.....	92,690	91,133	82,002	82,772	82,046
Number of Diesel Locomotives Operated.....	1,536	1,553	1,526	1,464	1,414
Number of Revenue Freight Cars Operated.....	115,163	118,342	119,389	117,315	113,953
Miles of Road Operated.....	7,585	7,583	7,588	7,554	7,578

Consolidated figures include Dereco, Inc. and its subsidiaries, Erie Lackawanna Railway Company and Delaware and Hudson Railway Company, from March 1, 1968, April 1, 1968 and July 1, 1968, their respective dates of acquisition. All figures in this report include those of Nickel Plate prior to merger on October 16, 1964. They also include Wabash and Pittsburgh & West Virginia figures prior to lease October 16, 1964, restated to reflect effect of leases. No effect has been given to results of Sandusky Line prior to purchase October 16, 1964.

In this Annual Report, the vice presidents of major departments describe the activities of their groups in 1968. This format permits us to introduce to our stockholders some of the many dedicated individuals responsible for the success of the Norfolk and Western Railway.

Earnings Improve
Operating Revenues Are Record
Computer System Progresses



Hamilton M. Redman

FINANCE

Reflecting an improved level of business activity, and freight rate increases producing approximately \$23 million in 1968 over 1967, railway operating revenues of N&W increased 8% to an all-time high of \$641.8 million in 1968, compared with \$594.2 million the previous year. Railway operating expenses were adversely affected by continued inflation in all elements of cost and increased 8% from \$416.1 million in 1967 to \$447.6 million in 1968.

Net income of N&W amounted to \$74.1 million, compared with \$72.6 million in 1967. Earnings per share for 1968 on average shares of stock outstanding were \$8.07 versus \$7.92 per share in 1967. Assuming conversion of all convertible securities, pro forma earnings per share would be \$7.46 in 1968 and \$7.87 in 1967. On July 1st, 412,627 shares of N&W were issued for purchase through Dereco, Inc., of assets of the Delaware and Hudson system.

Consolidated earnings, including majority-owned subsidiaries, were \$8.47 per share compared with

\$7.80 in 1967. Assuming conversion of all convertible securities, pro forma earnings per share would be \$7.83 in 1968 and \$7.75 in 1967.

Common stock dividends totaled \$6 a share in 1968, the same as in 1967.

Tax accruals last year were \$59.5 million compared with \$45.7 million in 1967. Higher tax accruals in 1968 reflect increased pre-tax earnings, the Federal income surtax, and the fact that in 1967 Federal income tax accruals were reduced by tax refunds applicable to prior years. For 1968 taxes amounted to \$6.47 per share of stock.

Capital expenditures for 1968 amounted to \$72.8 million, of which \$19.3 million was for road property and \$53.5 million for equipment. From unification on October 16, 1964, through the end of 1968, \$415 million was spent for equipment and \$131 million for improvements and additions to road property, including purchase of the Sandusky Line, a total of \$546 million.

Debt incurred last year totaled \$64.7 million, including \$48.3 million to finance equipment. Debt reductions for N&W and leased lines amounted to \$59.4 million principal amount, including \$44.9 million for repayment of equipment debt. The net increase in debt for the year was \$5.3 million.

Cash and temporary investments at the end of 1968 amounted to \$79.7 million, compared with \$67.1 million a year earlier. Working capital at the year-end was \$55 million, compared with \$56.2 million at the end of 1967.

Significant progress was made during 1968 in implementing our real time computer system. IBM 1050 systems located in 61 railroad yards are connected directly to an IBM 360/65 central computer in Roanoke. Train movements are reported directly to the computer as they occur, and the central computer forwards to the next yard inbound train information. In addition, 15 traffic and transportation offices are connected with the central computer, allowing remote inquiry for immediate response regarding freight car locations. Shippers nationwide will be permitted to inquire directly in real time of the central computer for the latest location of their cars beginning in March, 1969.

Our computer system is designed to provide better and faster information to shippers, improved freight car distribution and utilization, and information to management at all levels to insure more efficient and profitable operation of the railroad.

Merchandise Revenues Up 13%
86 New Plants Locate on N&W
Specialized Car Fleet Increased



John A. Barrett

MERCHANDISE TRAFFIC

Merchandise freight revenues last year were \$359.3 million, a record for the N&W, and 13% higher than in 1967.

Our handling of multi-level automobile rack cars increased to 93,130 carloads, 36.5% higher than the preceding year. Your railroad transported in excess of 1.3 million motor vehicles.

Indicative of the growth of this vital industry is the new automobile assembly plant at Talbotville, Ontario. In 1968, the first year of its operation, the facility contributed more than 7,000 carloads of traffic.

Our fleet of specially-equipped cars, modern facilities and competitive pricing have made your railroad one of the largest carriers of automotive traffic.

The movement of piggyback trailers increased sharply on the N&W last year. Trailer-On-Flat-Car (TOFC) and Container-On-Flat-Car (COFC) loadings were up 17.1%. To meet the increased growth of this traffic, the company has a program for acquiring 1,500 new trailers.

In line with the expected continued growth of containerized freight, last year we developed a "land bridge" rate concept jointly with several other connecting railroads. Under this plan containers moving between Europe and the Far East will utilize rail between the East and West Coasts. Several days transit time and several thousand miles will be shaved off the all-water routes now in use.

Export and import car load traffic last year increased 5% over 1967. Our handling of bulk export grain was up 26% because of heavy overseas requirements. Again, in this area the importance of a modern freight car fleet is evident. Our new jumbo covered hoppers with a capacity double that of the standard box cars are in great demand for this traffic.

During the year sizeable gains were also made in iron and steel, machinery, pulp and paper, chemicals and furniture traffic.

We further expanded our merchandise fleet of specially-equipped cars in 1968 by purchasing additional equipment and modifying existing cars.



Containerized freight has become an increasingly important source of traffic.



Merchandise traffic produces 59% of your company's freight revenues.

At year's end our special equipment fleet totaled 21,381 cars.

To insure new sources of traffic our Industrial Development Department is actively engaged in assisting industry to locate in areas served by your railroad. During 1968 eighty-six new plants located on our lines. These industries, plus other companies which expanded their operations, are expected to produce approximately 63,000 carloads of new traffic annually.

We are emphasizing our efforts to provide new marketing concepts and pricing assistance to our customers in order that your railroad might get a greater share of the transportation dollar.

The Traffic Department's employee education and recruiting program was accelerated during 1968. Participants in this program are given a broad introduction to the various facets of both the traffic and operating departments. After several months of training in the fundamentals of railroad operation they are sent to responsible on-the-job assignments in various locations.



The success of a railroad depends on its people who, like this clerk, are your company's greatest asset.

Export Coal Increases 2.9%
Iron Ore Nears 2 Million Tons
New Mines Begin Production



Lawrence T. Forbes

COAL AND ORE TRAFFIC

Coal production at mines served by the N&W in 1968 was approximately 80 million tons—about the same as in 1967. In addition, we received 10 million tons from connecting railroads.

Work stoppages at N&W-served mines were responsible for a loss of 2.4 million tons last year. This tonnage loss represents more than \$7 million in revenues to your company.

Barring unforeseen circumstances in 1969, we estimate coal production will total 85 million tons at N&W origin mines.

In 1968 four major new mines started operations on the N&W. These mines produced 1.4 million tons during the year. When in full operation they will produce 5 million tons annually.

We expect seven new mines to come on line during 1969 with an ultimate production of 6.7 million tons.

Our total coal loading at Lamberts Point for 1968, including coastwise and export, was more than 27.2 million tons, a record.

The N&W continues to show an increase in the movement of coal to the export market. During 1968 we handled 24.6 million tons over our Tidewater facilities, compared with 23.9 million tons in 1967. This reflects an increase of 2.9%.

Japan again was the number one consumer of American coals and took 12.5 million tons from N&W piers during the year compared with 9.9 million tons in 1967.

Because of long-term contracts between Japanese steel mills and coal producers on the N&W, Japan will continue to be an important factor in our export business for many years.

Coal shipments to the European Coal and Steel Community countries decreased to some extent in 1968. This was caused primarily by the Italians and Dutch turning to Germany and Poland for a larger share of their coal requirements. However, there are indications that the demand in this market for American coals will increase in the near future.

We expect our export tonnage alone for 1969 will total more than 27 million tons for an increase of more than 10% over 1968.

During 1968 we handled 6.9 million tons over our piers at Sandusky compared with 5.6 million tons in 1967, an increase of 23%. We expect to show a slight increase at Sandusky during 1969.

Utility coal shipments increased slightly in 1968. Many utility plants started the year with full stock-



Ship discharges ore at N&W facility at Huron, Ohio. Last year nearly two million tons of iron ore were handled here.

piles and purchases of coal were relatively slow until mid-1968.

We should have a substantial increase in our utility coal shipments this year. We expect to move 22.5 million tons to this industry during 1969—5.1% more than 1968.

Shipments to our domestic metallurgical coal markets in 1968 were slightly below the 1967 level, but we expect a modest increase in 1969.

During the year we handled nearly 2 million tons of iron ore through our facilities at Huron, Ohio, compared with 1.4 million tons in 1967. In addition, we increased our participation in a substantial number of all-rail ore shipments during the year.



Stenciling on "N&W" completes another 100-ton open hopper car. In 1968, 2,502 cars like this were built at Roanoke shops.

Three Operating Records Set
2,901 New Freight Cars Acquired
New Diesel Repair Shop In Service



Richard F. Dunlap

OPERATIONS

Three records, as measured by major industry yardsticks of efficient road operations, were established by the N&W in 1968. We averaged: (1) 92,690 gross ton miles per train hour. (2) 5,010 gross tons per train and, (3) 90.4 cars per train.

Despite substantial wage increases and higher prices for fuel, equipment and other materials, the operating ratio improved from 70% in 1967 to 69.7% in 1968. The operating ratio is the relationship of railway operating expenses to railway operating revenues.

A new locomotive repair shop at Roanoke was placed in service incorporating assembly line techniques, on-site material storage and other labor saving devices. We will perform all major overhauls to our diesel fleet at this facility at the rate of 250 units annually.

With its modern electronic equipment, Bellevue Yard has performed beyond our expectations. On December 16—twenty-six months after being placed in service—the two millionth freight car was classified

at this new automated facility. A concentration point for classifying cars from seven directions, this centralized location has reduced the amount of classification previously required at nine points, thereby providing expedited service and effecting a substantial reduction in overall expenses.

Tracks were constructed or extended at 90 new or expanding industries and mines. Trailer-On-Flat-Car (TOFC) facilities were improved at six locations.

In Buchanan County, Virginia, three coal mines with an estimated annual production of 5.5 million tons have been opened since February, 1964. Additional mines are expected to come on line with a capacity of 5 million tons. To serve this important area, an 8.4 mile line will be completed by mid-year which will shorten the distance between Buchanan County and eastern destinations by 48 miles.

The N&W has in service a car ferry operation between Detroit, Michigan, and Windsor, Ontario. The increasing volume of traffic between the United States and Canada and the projected growth has made necessary expansion and improvement of our

Detroit car ferry yard. In addition, we are making plans to improve substantially the river transfer operation.

Your company has centralized traffic control (CTC) in service on 3,375 track miles or 62.4% of main line mileage. Continuing this program, last year we completed an additional 29.5 miles of CTC in West Virginia and Ohio.

Nearly 90% of N&W trains are equipped with radio, enabling train and engine crews to communicate. Our program for extending radio wayside stations, permitting communication between these crews and ground stations, was completed between Buffalo, New York, and Fort Wayne, Indiana, a distance of 371 miles.

To move a higher volume of traffic with increased efficiency, your company acquired 2,901 new freight cars and rebuilt 659 other cars in our shops. New cars include 2,502 one-hundred ton open top hoppers; 307 one-hundred ton eighty-six foot cushioned underframe box cars; 66 seventy ton fifty foot cushioned underframe box cars; 23 one-hundred ton sixty foot cushioned underframe box cars; and 3 two-hundred ton depressed center flat cars. In 1968, all new and rebuilt cars were equipped with roller bearings and automatic car identification (ACI) labels.

We will place in service this spring a centralized car distribution center in Roanoke that will use the real time data now available from our computers. This will enable us to expedite the movement of empty equipment to points where required for loading.



Efficient use of modern diesel fleet contributed to operating records set during year.



Dispatcher's lighted console registers train movements and locations. Communications are maintained with trains by radio.



Modern maintenance equipment, such as this tie insertion machine, keep rail property in top condition.



Irwin H. Soldwish

BUDGET AND PLANNING

The Budget and Planning Department's functions are: 1. To develop and install a Management Information System. 2. To prepare studies for management decisions. 3. To direct the preparation of annual and monthly budgets.

Much of the groundwork and some implementation of a Management Information System was accomplished during 1968. By the end of 1969, the system will be providing various levels of management with better information for profit improvement. Major areas targeted for completion during this year include a system to provide information needed for improvement in freight car utilization, a program to improve control of material and supplies, and a revision of the present payroll procedure. These last two will be tied together through work functions, leading toward responsibility reporting.

Various studies oriented toward profit improvement were completed and implemented during 1968. Other studies are continuing and more will be implemented in 1969. Rate of return studies are prepared for proposed capital expenditures for plant and equip-

ment which assist management in evaluating such proposals. Studies for the pricing and marketing sections of our traffic groups are constantly in progress.

Budgets are presently prepared by all major departments, but during 1969 they will be further refined to provide additional information to improve management control.

**Real Estate Program Expands
Industrial Parks Are Opened
Federal, State Taxes Increase**



James E. Carr

TAXATION AND REAL ESTATE

Last year marked N&W's entrance into the commercial and residential development field. In addition to this diversification, we continued our real estate program for expanding industry.

Beginning in January, 1968, we announced during the year four projects that, when completed, will represent investments of about \$525 million. N&W owned most of the land for three of the commercial and residential developments in Hammond, Ind., Kansas City, Mo., and Cincinnati, Ohio. We are undertaking these projects on a partnership basis with experienced and successful real estate developers. Construction was well under way at Hammond and Cincinnati by the end of 1968. Ground breaking took place at Kansas City February 14, 1969.

The fourth project—announced in late November—is the proposed development on a joint basis with an outstanding real estate organization of 475 acres in Coral Gables, Fla., on Biscayne Bay. The plans, subject to zoning approval, provide for the construction of a de luxe residential and recreational area.

When completed, these undertakings will add substantially to N&W's assets and will provide increased cash flow and income.

Attractive industrial areas were opened on your railroad during the year near Detroit, Fort Wayne and Kokomo, Ind., and Columbus, Ohio, on which six national concerns have already purchased sites.

An intensive forest management program, which should result in substantial revenues in future years, was inaugurated in 1968 on 350,000 acres of timberland of Pocahontas Land Corporation, an N&W subsidiary.

Federal income taxes for N&W were \$10.2 million in 1968 compared with \$576,000 in 1967. The increase in 1968 resulted from additional pre-tax income, the enactment of the Federal surcharge, and the fact that in 1967 substantial refunds were received from prior years.

State taxes in 1968 were \$23,343,000 and \$21,602,000 in 1967. The 1968 accruals reflect a decision of the U. S. Supreme Court favoring N&W on the taxation of rolling stock in Missouri. On the adverse side, they reflect a continuing upward trend in rates and an increase of 55% in the valuation of roadway and track in Virginia. The company has petitioned the Virginia State Corporation Commission for relief.



Edward A. Manetta

PERSONNEL

The average number of Norfolk and Western employees during 1968 was 30,151. They received an average of \$8,566 in wages and \$1,377 in fringe benefits, for a total of \$9,943 per employee. This compares with an average wage and fringe benefit total of \$9,304 in 1967.

During 1968, more than 15,000 applicants for employment were interviewed, 10,000 were given preemployment examinations, and 3,756 were employed.

As in most major industries, labor costs for your railroad have risen steadily for several years. In 1968, costs of general wage increases effective for that year amounted to \$11.5 million.

Fifteen agreements effecting increases in wages and fringe benefits were reached between your company and various operating and non-operating unions last year. Of these, eight were agreed to in national handling and seven were accomplished at the company level.

Directors

John J. Emery, Chairman of the Executive Committee of Emery Industries, Inc., retired as a director of your company May 9, ending 14 years of service to the N&W. Robert B. Claytor, Vice President—Law, was elected to succeed Mr. Emery.

Officers

Appointed: Robert B. Claytor, Senior Vice President; Edward A. Manetta, Vice President—Personnel; Irwin H. Soldwish, Vice President—Budget and Planning.

Retired: William A. Noell, Vice President—Personnel.



Efficient communications network is vital to the railroad. Here operators direct calls through system's 16-state area.



A wide range of skills is required on the N&W. Shown is part of foundry operation for freight car production.

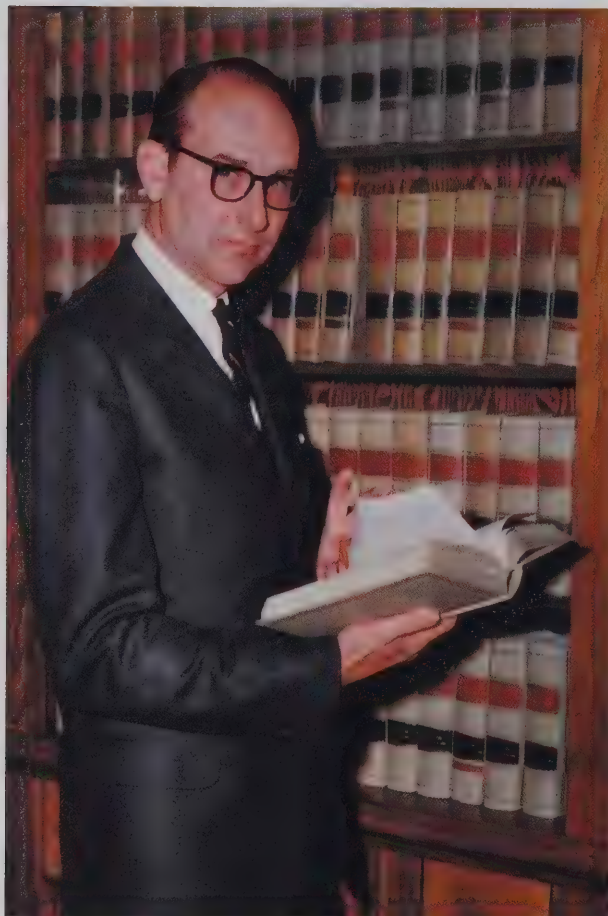


Welded rail reduces maintenance, gives smoother ride. Rails are bolted down prior to shipment for final installation.



Detailed records are required to keep the N&W running efficiently.

**Erie Lackawanna, D&H Join System
Final Merger Briefs Filed With ICC
N&W-C&O Merger Urgently Required**



Robert B. Claytor

LAW

The major development on the legal front during 1968 was the continued progress of the N&W-C&O merger proceeding before the Interstate Commerce Commission. Lengthy hearings were completed in April, final briefs were filed in July, and the recommended report of the hearing examiner is expected soon. We are hopeful that a favorable decision by the Commission will be released before the end of 1969.

As directed by the Commission, N&W included the Erie Lackawanna and the Delaware and Hudson in its system last year. These carriers were acquired April 1, and July 1, respectively, by newly organized subsidiaries of Dereco, Inc., a holding company more than 80% owned by N&W.

The Erie Lackawanna inclusion required the issuance to Erie Lackawanna stockholders of 47,116 shares of Dereco Preferred Stock Class A and 601,777 shares of Dereco Preferred Stock Class B. Each share of Dereco Preferred is exchangeable for one share of N&W Common Stock on April 1, 1973, or earlier if certain federal tax legislation is enacted. N&W has reserved for issuance 821,280 shares of its Common Stock to provide for this exchange and the possible conversion of Erie General Mortgage 4½% Income Bonds. The D&H inclusion required the issuance in payment for the D&H railroad properties of 412,627 shares of N&W Common Stock, and N&W's \$1 million five-year 6% promissory note. N&W did not assume any debt of Erie Lackawanna or D&H, such debts being assumed solely by the new subsidiaries of Dereco.

The Commission also has directed the inclusion of the Boston and Maine in the N&W system, but B&M management has recommended rejection of the prescribed terms.

The inclusion of the Erie Lackawanna and the D&H in the N&W system—while consistent with our proposal for an N&W-C&O system embracing those roads, the B&M, the Reading and the Central of New Jersey—is no substitute for an N&W-C&O merger. In fact, the large exposure of these roads, as well as N&W and C&O, to the giant Penn Central system created February 1, 1968, makes more imperative than ever the formation of a second competitive rail system in the East. We believe that our proposed N&W-C&O-Dereco system will provide the balanced competition with Penn Central so urgently required in the public interest.

DERECO, INC.

John P. Fishwick, senior vice president of the Norfolk and Western, was granted a leave of absence April 1, 1968, to serve as president of Dereco, Inc., a subsidiary, all of the common stock of which is owned by N&W. He was named chairman and chief executive officer of the Erie Lackawanna Railway and president of the Delaware and Hudson Railway when those roads were included in the N&W system.

As part of the N&W system last year, the Erie Lackawanna had gross revenues of \$185 million from April 1 to December 31, and the D&H reported gross revenues of \$20 million from July 1 to year's end.

The Erie Lackawanna has approximately 13,775 employees, total assets of \$464 million, and operates 2,904 miles of road serving a six-state area from New York to Chicago.

The D&H has 2,404 employees, assets of \$107 million, and operates 734 miles of road through Pennsylvania, New York and Vermont.



John P. Fishwick

Norfolk and Western Railway System

CONSOLIDATED INCOME STATEMENT

Income	1968	1967
Railway Operating Revenues:		
Freight.....	\$806,152,768	\$573,276,430
Passenger, Mail and Express.....	22,360,526	10,376,958
All Other.....	30,262,732	20,906,643
Total	858,776,026	604,560,031
Net Income of Non-Railroad Majority Owned		
Subsidiary Companies Before		
Federal Income Tax.....	5,479,605	3,308,929
Dividends, Interest and Other Income—Net.....	10,528,840	7,534,769
Total Income	874,784,471	615,403,729
Expenses		
Railway Operating Expenses:		
Maintenance of Way and Structures.....	93,665,191	59,335,864
Maintenance of Equipment.....	136,880,987	97,152,183
Traffic.....	18,664,632	13,364,938
Transportation.....	328,030,365	224,268,451
Miscellaneous Operations.....	1,046,113	691,308
General.....	38,950,895	30,257,337
Total	617,238,183	425,070,081
Payroll Taxes.....	36,790,741	24,041,299
State, Municipal and Miscellaneous Taxes.....	30,044,757	21,984,660
Federal Income Taxes [Note 2].....	11,563,615	1,823,255
Equipment and Joint Facility Rents—Net.....	43,742,195	26,803,472
Rent for Leased Roads and Equipment.....	13,758,089	13,626,323
Interest on Indebtedness.....	43,535,537	30,246,775
Total Expenses	796,673,117	543,595,865
Net Income Before Minority Interest.....	78,111,354	71,807,864
Minority Interest in Income of Subsidiaries.....	279,670	288,006
Net Income	77,831,684	71,519,858
Earnings Per Share of Common Stock:		
Based on Average Number of Shares Outstanding [Note 1].....	\$8.47	\$7.80
Pro Forma Assuming Full Conversion of All Convertible Securities [Notes 1 and 3].....	\$7.83	\$7.75

CONSOLIDATED RETAINED INCOME STATEMENT

	1968	1967
Balance January 1.....	\$783,424,202	\$783,022,702
Additions:		
Net Income for the Year.....	77,831,684	71,519,858
Total Additions	861,255,886	854,542,560
Deductions:		
Dividends—Common Stock.....	55,137,868	55,094,295
Adjustment of Investment in Road and Equipment [Note 4].....	4,787,774	4,787,356
Premium on Capital Stock Reacquired [Note 3].....	8,400,000	11,236,707
Total Deductions	68,325,642	71,118,358
Balance December 31.....	792,930,244	783,424,202

See Notes, pages 24-27.

Norfolk and Western Railway System

CONSOLIDATED BALANCE SHEET

Assets	December 31, 1968	December 31, 1967
Current Assets		
Cash and Temporary Investments.....	\$ 107,157,367	\$ 71,464,241
Accounts Receivable.....	89,332,288	57,628,846
Material and Supplies.....	33,408,885	22,831,889
Other Current Assets.....	22,793,496	21,522,314
Total Current Assets	252,692,036	173,447,290
Special Funds.....	10,140,591	6,108,886
Investments: Affiliated Companies not Consolidated [Note 1].....	52,024,696	25,400,325
Other.....	8,164,552	12,163,726
Properties less allowances for Depreciation and Amortization [Note 4]....	2,209,694,069	1,738,792,931
Other Assets and Deferred Charges.....	27,860,240	20,389,565
Total Assets	2,560,576,184	1,976,302,723
Liabilities and Shareowners' Equity		
Current Liabilities		
Accounts and Wages Payable.....	95,628,060	56,195,429
Taxes Accrued.....	57,767,964	49,051,685
Other Liabilities.....	21,064,735	8,358,889
Total Current Liabilities	174,460,759	113,606,003
Long-Term Debt Due Within One Year		
Mortgage Bonds.....	13,586,000	813,000
Equipment Obligations.....	58,477,941	45,844,726
Income Debentures.....	907,000	—
Other.....	1,937,832	254,164
Total Long-Term Debt Due Within One Year	74,908,773	46,911,890
Long-Term Debt Due After One Year		
Mortgage Bonds.....	369,652,850	185,799,000
Equipment Obligations.....	473,288,249	396,385,036
Collateral Trust Bonds and Notes.....	22,317,850	—
Income Bonds.....	48,233,250	—
Income Debentures.....	80,074,900	55,278,000
Subordinated Debentures.....	41,600,000	31,200,000
Other.....	11,590,862	7,941,893
Total Long-Term Debt Due After One Year	1,046,757,961	676,603,929
Other Liabilities and Deferred Credits		
Wabash Railroad Company—Lessor.....	33,790,225	37,537,267
Purchase Contract—Equipment [Note 7].....	3,400,116	7,702,685
Other.....	58,871,007	21,017,907
Total Other Liabilities and Deferred Credits	96,061,348	66,257,859
Minority Interest [Note 1].....	52,187,237	8,765,182
Shareowners' Equity		
Capital Stock: Common—\$25 Par Value.....	234,947,425	226,562,125
9,397,897 Shares Dec. 31, 1968		
9,062,485 Shares Dec. 31, 1967		
Capital Surplus.....	48,503,539	13,918,367
Excess at Acquisition of Net Assets of Consolidated Subsidiaries		
Over Cost.....	39,818,898	40,253,166
Retained Income.....	792,930,244	783,424,202
Total Shareowners' Equity	1,116,200,106	1,064,157,860
Total Liabilities and Shareowners' Equity	2,560,576,184	1,976,302,723

See Notes, pages 24-27.

Norfolk and Western Railway Company

INCOME STATEMENT

Income	1968	1967	Increase (Decrease)
Railway Operating Revenues:			
Freight—Coal and Coke.....	\$254,178,919	\$246,789,179	\$ 7,389,740
Merchandise.....	359,267,899	316,591,080	42,676,819
Passenger, Mail and Express.....	6,413,925	10,376,958	(3,963,033)
All Other.....	21,978,283	20,421,171	1,557,112
Total	641,839,026	594,178,388	47,660,638
Dividends, Interest and Other Income—Net.....	14,539,356	11,725,412	2,813,944
Total Income	656,378,382	605,903,800	50,474,582
Expenses			
Railway Operating Expenses:			
Maintenance of Way and Structures.....	67,368,101	57,705,528	9,662,573
Maintenance of Equipment.....	102,802,739	94,549,762	8,252,977
Traffic.....	13,424,511	12,811,062	613,449
Transportation.....	233,973,761	220,712,107	13,261,654
Miscellaneous Operations.....	565,545	691,308	(125,763)
General.....	29,464,491	29,668,327	(203,836)
Total	447,599,148	416,138,094	31,461,054
Payroll Taxes.....	25,969,497	23,569,507	2,399,990
State, Municipal and Miscellaneous Taxes.....	23,342,939	21,601,890	1,741,049
Federal Income Taxes [Note 2].....	10,160,000	576,000	9,584,000
Equipment and Joint Facility Rents—Net.....	28,168,907	27,793,329	375,578
Rent for Leased Roads and Equipment.....	14,198,083	14,275,719	(77,636)
Interest on Indebtedness, Including Amortization of Discount.....	32,798,470	29,342,258	3,456,212
Total Expenses	582,237,044	533,296,797	48,940,247
Net Income	74,141,338	72,607,003	1,534,335
Earnings Per Share of Common Stock:			
Based on Average Number of Shares Outstanding.....	\$8.07	\$7.92	\$0.15
Pro Forma Assuming Full Conversion of All Convertible Securities [Notes 1 and 3].....	\$7.46	\$7.87	(\$0.41)

RETAINED INCOME STATEMENT

	1968	1967	Increase (Decrease)
Balance January 1.....	\$759,390,891	\$757,795,203	\$1,595,688
Additions:			
Net Income for the Year.....	74,141,338	72,607,003	1,534,335
Retained Income of Wabash Motor Transit at Merger Effective January 3, 1967.....	—	102,481	(102,481)
Total Additions	74,141,338	72,709,484	1,431,854
Deductions:			
Dividends—Common Stock.....	55,137,868	55,094,295	43,573
Adjustment of Investment in Road and Equipment [Note 4].....	4,783,212	4,782,794	418
Premium on Capital Stock Reacquired [Note 3].....	8,400,000	11,236,707	(2,836,707)
Total Deductions	68,321,080	71,113,796	(2,792,716)
Balance December 31	765,211,149	759,390,891	5,820,258

See Notes, pages 24-27.

Norfolk and Western Railway Company

BALANCE SHEET

Assets	December 31, 1968	December 31, 1967
Current Assets		
Cash and Temporary Investments.....	\$ 79,663,496	\$ 67,111,734
Accounts Receivable.....	56,062,053	56,036,558
Material and Supplies.....	19,465,060	22,253,119
Other Current Assets.....	20,991,306	20,128,805
Total Current Assets	176,181,915	165,530,216
Special Funds.....	5,303,447	6,056,564
Investments: Affiliated Companies [Note 1].....	204,259,643	106,236,038
Other.....	3,573,450	8,556,575
Properties less allowances for Depreciation and Amortization [Note 4]....	1,591,502,301	1,584,867,334
Other Assets and Deferred Charges—Includes Account with Leased Company \$874,292 (December 31, 1968)—[Note 5].....	20,927,337	20,039,774
Total Assets	2,001,748,093	1,891,286,501
Liabilities and Shareowners' Equity		
Current Liabilities		
Accounts and Wages Payable.....	58,425,871	54,631,205
Taxes Accrued.....	51,022,491	46,917,022
Other Current Liabilities.....	11,716,420	7,751,245
Total Current Liabilities	121,164,782	109,299,472
Long-Term Debt Due Within One Year		
Mortgage Bonds.....	2,424,000	673,000
Equipment Obligations.....	44,542,218	43,870,336
Income Debentures.....	907,000	—
Other.....	145,313	186,964
Total Long-Term Debt Due Within One Year	48,018,531	44,730,300
Long-Term Debt Due After One Year		
Mortgage Bonds.....	165,859,300	172,222,400
Equipment Obligations.....	389,841,995	386,069,213
Income Debentures.....	53,498,700	55,278,000
Subordinated Debentures.....	41,600,000	31,200,000
Other.....	6,000,000	7,795,313
Total Long-Term Debt Due After One Year	656,799,995	652,564,926
Other Liabilities and Deferred Credits		
Accounts With Leased Companies [Note 5].....	52,833,057	57,708,994
Purchase Contract—Equipment [Note 7].....	3,400,116	7,702,685
Other.....	20,068,939	20,160,184
Total Other Liabilities and Deferred Credits	76,302,112	85,571,863
Shareowners' Equity		
Capital Stock: Common—\$25 Par Value..... 9,397,897 Shares Dec. 31, 1968; 9,062,485 Shares Dec. 31, 1967	234,947,425	226,562,125
Stock Liability for Conversion [Note 1].....	55,025,760	—
Capital Surplus.....	44,278,339	13,166,924
Retained Income.....	765,211,149	759,390,891
Total Shareowners' Equity	1,099,462,673	999,119,940
Total Liabilities and Shareowners' Equity	2,001,748,093	1,891,286,501

See Notes, pages 24-27.

NOTES TO FINANCIAL STATEMENTS

1. Basis of Consolidation and Acquisitions During 1968

Norfolk and Western Railway Company (N&W), pursuant to a directive of the Interstate Commerce Commission (ICC) organized Dereco, Inc., on March 1, 1968, through which it included the Erie-Lackawanna and Delaware and Hudson railroads in its system effective April 1, 1968, and July 1, 1968, respectively. All of the Dereco common stock is owned by N&W.

Erie-Lackawanna Railroad Company was merged into Dereco's newly formed wholly owned subsidiary, Erie Lackawanna Railway Company on April 1, 1968, in a nontaxable reorganization. In accordance with an ICC ruling, this transaction was accounted for as a purchase, and the underlying net assets were recorded by the transferee at the value ascribed to the consideration paid therefor, which was \$194,440,476 less than the amount reflected in the transferor's accounts. In this transaction N&W received 3,285,120 shares of Dereco's common stock valued at \$55,025,760, and is obligated to issue, on or after the earlier of April 1, 1973, or the enactment of certain Federal legislation relating to tax loss carry forwards, up to 821,280 shares of its common stock in exchange for 50,354 shares of Dereco Noncumulative Preferred Stock Class A, 601,777 shares of Dereco Noncumulative Preferred Stock Class B, and the conversion of \$43,929,000 of Erie-Lackawanna General Mortgage 4½% Income Bonds, Series A, due January 1, 2015 (or in exchange for 169,127 shares of Dereco Preferred Stock Class A [fractional interests equivalent to 22 shares of Dereco Preferred Stock Class A having been acquired for cash] in the event such General Mortgage Income Bonds are, in accordance with their terms, first converted into Dereco Preferred Stock Class A).

The assets of The Delaware and Hudson Company and its subsidiaries, as reduced by certain retained excess working capital as defined by the ICC, were purchased as of July 1, 1968, by another of Dereco's newly formed wholly owned subsidiaries, Delaware and Hudson Railway Company, in a taxable transaction in which N&W received 2,523,084 shares of Dereco common stock in exchange for 412,627 shares of its common stock and a 5-year N&W note in the principal amount of \$1,000,000 bearing interest at 6% per annum. The Dereco common stock received in this transaction has been valued at \$42,262,700 in N&W's accounts.

No dividends were declared or paid on the Dereco non-cumulative preferred stocks and no provision was made therefor in the computation of consolidated earnings per share of common stock.

The consolidated financial statements include:

- (1) Norfolk and Western Railway Company.
- (2) Dereco, Inc., and its wholly owned subsidiaries, Erie Lackawanna Railway Company and Delaware and Hudson Railway Company from their respective dates of acquisition. Included in minority interest are the outstanding non-cumulative preferred shares of Dereco, Inc., stated at the value ascribed thereto upon issuance, which is approximately \$40,000,000 less than their preference value in involuntary liquidation.
- (3) Other subsidiaries of Norfolk and Western Railway Company controlled through ownership of more than 50% of the voting stock.

2. Federal Income Taxes

The accelerated methods of depreciation provided by the Internal Revenue Code and the depreciation guideline lives promulgated by the U. S. Treasury Department have been used in computing Federal income taxes. The use of these methods and lives and amortization of branches and spurs serving coal operations resulted in greater depreciation deductions for income tax purposes than the depreciation recorded in the accounts under Interstate Commerce Commission accounting rules, and reduced consolidated Federal income tax accruals for 1967 and 1968, \$18,348,000 and \$20,270,000 respectively. For the same periods, Norfolk and Western Railway Company's tax reductions were \$18,090,000 and \$16,689,000, respectively. The accumulated tax reduction to December 31, 1968, due to the excess of depreciation and accelerated amortization of emergency facilities for tax computations over the depreciation recorded in the accounts was \$203,541,000 on a consolidated basis and \$198,562,000 for Norfolk and Western Railway Company.

The 7% investment tax credit authorized by the Revenue Act of 1962 reduced consolidated Federal income tax accruals \$7,195,000 (including carryback credit of \$1,147,000) in 1967 and \$10,267,000 (including carry forward credit of \$2,467,000) in 1968. The credit reduced Norfolk and Western Railway

Company accruals \$7,139,000 and \$8,867,000 in 1967 and 1968, respectively.

Federal income tax accruals of Norfolk and Western Railway Company were reduced \$5,500,000 in 1967 and \$106,000 in 1968 by refunds received in those years of taxes applicable to prior years.

The operations of Dereco, Inc., and its subsidiaries will be included in the consolidated Federal income tax return of Norfolk and Western. Because of the substantially higher tax basis of the assets of Erie Lackawanna as compared to the amounts recorded in its accounts (see Note 1), its operations resulted in a loss for tax purposes. The operations of Delaware and Hudson also show a loss in 1968 for tax purposes, resulting principally from use of guideline lives and accelerated methods of computing depreciation. Inclusion of these companies in Norfolk and Western's Federal income tax computations reduced its 1968 tax accruals \$3,167,000. Credit will be given to Erie Lackawanna and Delaware and Hudson for use of their aggregate tax losses should taxable income resulting from operations in future years produce tax liabilities that could otherwise have been offset by such losses.

Federal income tax returns of Norfolk and Western Railway Company have been examined and settled through the year 1958. Federal income tax returns of The New York, Chicago and St. Louis Railroad Company and The Wheeling and Lake Erie Railway Company have been examined and settled through the year 1957.

3. Transaction With Penn Central Company

As authorized by the Interstate Commerce Commission in 1966 Norfolk and Western and the Pennsylvania Railroad System, now Penn Central Company, are parties to an agreement providing for the issuance by Norfolk and Western of \$104,000,000 principal amount of 4½% 15-year Subordinated Debentures, in series, over a period extending through June 3, 1974, in exchange for 800,000 shares of Norfolk and Western Common Stock held by Penn Central. Each series is convertible into Norfolk and Western Common Stock at \$130 per share three years after issue by holders other than Penn Central. As of December 31, 1968, \$41,600,000 of debentures had been issued in exchange for 320,000 Norfolk and Western shares, and the balance of \$62,400,000 will be issued serially at the annual rate of \$10,400,000 for 80,000 shares of Norfolk and Western from 1969 to 1974.

4. Properties

The investment in properties is comprised of the following:

Norfolk and Western and Subsidiaries, Consolidated:

	1968	1967
Transportation Property:		
Roadway Facilities.....	\$1,195,522,645	\$ 863,614,133
Equipment.....	1,319,867,553	1,144,731,324
Other Elements of Investment.....	106,907,533	112,281,178
Construction Work in Progress.....	9,490,840	7,797,804
Other Property.....	93,637,487	88,150,143
	<u>\$2,725,426,058</u>	<u>\$2,216,574,582</u>
Allowance for Depreciation and Amortization:		
Roadway Facilities.....	\$ 104,192,963	\$ 95,092,750
Equipment.....	382,766,217	354,814,493
Other Property.....	28,772,809	27,874,408
	<u>515,731,989</u>	<u>477,781,651</u>
Net Investment.....	<u>\$2,209,694,069</u>	<u>\$1,738,792,931</u>

Norfolk and Western Railway Company:

	1968	1967
Transportation Property:		
Roadway Facilities.....	\$ 798,759,149	\$ 786,882,345
Equipment.....	1,127,847,535	1,100,055,637
Other Elements of Investment.....	86,097,817	90,872,988
Construction Work in Progress.....	9,243,833	7,460,181
Other Property.....	20,167,226	20,213,215
	<u>\$2,042,115,560</u>	<u>\$2,005,484,366</u>
Allowance for Depreciation and Amortization:		
Roadway Facilities.....	\$ 88,967,931	\$ 82,736,659
Equipment.....	355,512,903	331,907,948
Other Property.....	6,132,425	5,972,425
	<u>\$ 450,613,259</u>	<u>\$ 420,617,032</u>
Net Investment.....	<u>\$1,591,502,301</u>	<u>\$1,584,867,334</u>

The Interstate Commerce Commission by order dated April 17, 1963, required railroads to restate the recorded costs of their investment in road and equipment to agree with valuation figures maintained pursuant to Section 19a of the Interstate Commerce Act. The valuations for Norfolk and Western (in-

cluding the former Nickel Plate) and Wheeling and Lake Erie are based on physical inventories in 1916 and 1918, valued on the basis of 1910-1914 prices and reflect subsequent additions and retirements since the inventory dates. In complying with this order it was determined that the amounts previously recorded in the road and equipment accounts exceeded the valuation figures by approximately \$102,150,000 for Norfolk and Western (\$54,000,000 applicable to the former Nickel Plate) and \$33,000,000 for Wheeling and Lake Erie. In addition, in 1965 Norfolk and Western was authorized by the Bureau of Accounts, Interstate Commerce Commission, to include in its difference interest and other general expenses during construction in the total amount of \$27,381,756. Of the foregoing, Norfolk and Western charged \$4,783,212 in 1968 and a total of \$38,072,095 to December 31, 1968, to retained income. Wheeling has made the same accounting for \$593,912 in 1968 and a total of \$11,800,502 to December 31, 1968. The remainder of the differences are to be charged to retained income on a consistent basis in future years as authorized by the Interstate Commerce Commission.

5. Leased Companies

Net balances of certain assets and liabilities acquired by Norfolk and Western Railway Company in connection with its leases of the properties of Wabash Railroad Company, The Wheeling and Lake Erie Railway Company and Pittsburgh & West Virginia Railroad (successor to The Pittsburgh & West Virginia Railway Company), are reflected in the balance sheets in "Other Liabilities and Deferred Credits" and "Other Assets and Deferred Charges" along with the values of certain other assets which are to be accounted for upon termination of the leases. Included in these transactions is the issuance and delivery by The Wheeling and Lake Erie Railway Company to the Nickel Plate (prior to merger with Norfolk and Western) of \$6,059,000 aggregate principal amount of Wheeling's General and Refunding Mortgage 4½ % Bonds, Series D, dated May 1, 1959, due November 1, 1988, in reimbursement for an equal amount owing the Nickel Plate on September 30, 1958; these bonds bear no interest while they are held by the Company. The leases provide, among

other things, that Norfolk and Western, as rental, shall pay the amounts required to maintain the corporate existence of the leased companies, taxes, interest, accrued depreciation, and amortization, and in addition payments as follows:

Wabash Lease:

Minimum annual payments during the eight-year term of the lease of \$8,534,635 plus 1,350,000 times the amount by which the annual dividend on Norfolk and Western Common Stock exceeds \$5.00 per share.

Wheeling and Lake Erie Lease:

Quarterly payments of \$1.00 and \$1.4375 on each share of its Prior Lien and Common Stock, respectively, outstanding in the hands of the public. In 1968 these payments totaled \$255,222.

Pittsburgh & West Virginia Lease—\$915,000 per year.

6. Obligations Assumed or Guaranteed

Norfolk and Western has assumed or guaranteed in connection with its leases of properties of Wabash Railroad Company, The Wheeling and Lake Erie Railway Company and Pittsburgh & West Virginia Railroad, payment of principal and interest on the following obligations:

Pittsburgh & West Virginia Railroad:

First Mortgage Bonds, Series A...	\$ 3,433,000
Government-Guaranteed Collateral Trust Notes, Term Bank Note...	800,000

Wabash Railroad Company:

First Mortgage Bonds.....	\$40,844,000
General Mortgage Bonds.....	16,633,200

Wheeling and Lake Erie Railway Company:

General and Refunding Mortgage Bonds.....	\$10,664,000
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Wheeling Car Leasing Company, Conditional Sale Agreements....	\$ 2,116,950
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None of the foregoing obligations is reflected in the Balance Sheet of Norfolk and Western Railway Company. The obligations of The Wheeling and Lake Erie Railway Company (of which 115,642.17

shares (99.6%) of Prior Lien Stock and 296,103.68 shares (87.2%) of Common Stock were owned by Norfolk and Western as of December 31, 1968) and its wholly owned subsidiary, Wheeling Car Leasing are reflected in the Consolidated Balance Sheet.

7. Purchase Contract—Equipment

Purchase Contract—Equipment represents the cost of new equipment received in late 1967 and 1968, paid for in January 1968 and 1969, respectively, with funds received from issuance of equipment obligations and a cash payment of \$203,000 in January 1969.

8. Stock Option Plan

At the 1959 Norfolk and Western Annual Meeting, the stockholders approved a Restricted Stock Option Plan. Proceeds from the sale of stock optioned under this Plan must be placed in a special fund and used for property additions under authority of the Interstate Commerce Commission. On January 1, 1968, there were 11,265 shares issuable for outstanding options. During the year options for 2,785 shares were exercised and none expired, and at the end of 1968 there remained 8,480 shares issuable for outstanding options. No options have been granted since October 1963, and it is not contemplated that any additional options will be granted under this Plan.

9. Retirement Plans

The Norfolk and Western Railway Company has a funded pension plan which provides supplemental retirements benefits to eligible officers and employees. The total pension expense for contributions to the Plan for 1968 and 1967 was \$1,044,147 and \$1,166,598, respectively. Assets of the pension fund approximated the actuarial value of vested benefits as of December 31, 1968.

Both Erie Lackawanna and Delaware and Hudson Railways have noncontributory funded pension plans which provide for benefits for eligible officers and employees. Each company has included in its liabilities the unfunded prior service costs.

Since April 1, 1968, Erie Lackawanna Railway has paid \$900,000 into its fund, of which \$98,143 was charged to expense and the balance against the above mentioned liability. Since July 1, 1968, Delaware and Hudson Railway has paid \$338,270 into

its fund, of which \$69,788 was expensed and the balance charged against the liability account. It is the policy of both companies to fund pension costs accrued.

The actuarially computed reserve liability for pensioners of Erie Lackawanna Railway as of June 30, 1968, the date of the most recent actuarial study, exceeded the assets at book value, by approximately \$3,075,000. Delaware and Hudson Railway's last actuarial study as of December 31, 1968, indicated its reserve liability for pensioners exceeded the assets, at book value, by approximately \$2,204,000.

10. Equipment Lease Agreements

Norfolk and Western Railway Company is liable on equipment leases aggregating approximately \$33,300,000 as of December 31, 1968, with annual rentals ranging from \$6,800,000 in 1969 to \$857,000 in 1976. Erie Lackawanna Railway Company has similar liabilities aggregating approximately \$28,800,000 as of December 31, 1968, with annual rentals ranging from \$3,013,000 in 1969 to \$463,000 in 1983.

11. Contingent Liabilities

The Norfolk and Western and its subsidiaries are contingently liable as guarantor of certain obligations of Trailer Train Company and other companies. All but \$6,022,000 of such contingent liabilities have been incurred jointly and severally with other companies, and at December 31, 1968, aggregated \$230,171,000. Norfolk and Western Railway Company separately had similar contingent liabilities totaling \$219,347,000 as of December 31, 1968.

The Supreme Court of the United States issued a recent opinion in a dispute between railroads operating in official and southern territories relating to division of revenues from joint inter-territorial rates. This decision could result in Norfolk and Western and Erie Lackawanna being required to refund an estimated \$4,000,000 and \$1,500,000, respectively, including interest, to Southern lines. A similar unrecorded liability for the Delaware and Hudson approximated \$97,000 at December 31, 1968.

* * * *

DIRECTORS

Terms Expiring in 1969—

Robert P. Tibolt, *Chairman of the Board,*
Eastern Gas and Fuel Associates

Hamilton M. Redman, *Vice President—Finance,*
Norfolk and Western Railway Company

John P. Fishwick, *Senior Vice President,*
Norfolk and Western Railway Company

William S. Lowe, *President,*
A. P. Green Refractories Co.

Terms Expiring in 1970—

John S. Alfrend, *Retired Board Chairman,*
Virginia National Bank

Herman H. Pevler, *President,*
Norfolk and Western Railway Company

Myron B. Phipps, *Retired Assistant President,*
Norfolk and Western Railway Company

Raymond E. Rowland, *Retired Chairman of the Board,*
Ralston Purina Company

Terms Expiring in 1971—

Raymond E. Salvati, *Consultant,*
Sales-Mining

H. S. Payson Rowe, *President,*
Brookline Savings Bank

G. Albert Shoemaker, *Retired Executive Advisor—*
Coal, Continental Oil Company

Robert B. Claytor, *Senior Vice President,*
Norfolk and Western Railway Company

OFFICERS

Herman H. Pevler, *President*

John P. Fishwick, *Senior Vice President*

Robert B. Claytor, *Senior Vice President*

Hamilton M. Redman, *Vice President—Finance*

John A. Barrett, *Vice President—Traffic*

Richard F. Dunlap, *Vice President—Operations*

James E. Carr, *Vice President—*
Taxation and Real Estate

Lawrence T. Forbes, *Vice President—*
Coal and Ore Traffic

Edward A. Manetta, *Vice President—Personnel*

H. Bartlett Stewart, Jr., *Vice President*

Irwin H. Soldwish, *Vice President—*
Budget and Planning

Walter S. Clement, *Vice President—Western Region*

Charles A. Thoma, *Vice President—Lake Region*

Harold E. Carter, *Vice President*
and General Manager—Atlantic Region

Howard J. Brinner, *Comptroller*

Fred R. McCartney, *Treasurer*

William H. Ogden, *Secretary*

Stock Transfer and Dividend Disbursing Agent

Morgan Guaranty Trust Company of New York
30 West Broadway, New York, New York 10015

General Offices

8 North Jefferson Street, Roanoke, Virginia 24011

Annual Meeting

The Annual Meeting of Stockholders of Norfolk and Western Railway Company will be held on Thursday, May 8, 1969, at 10:00 a.m., Eastern Standard (Summer) Time, at Hotel Roanoke, Roanoke, Virginia.

Norfolk and Western Railway Company

INCOME STATEMENT

	1968		1967		
	Amount	Percent of Operating Revenues	Amount	Percent of Operating Revenues	Increase or (Decrease)
Railway Operating Revenues:					
Coal and Coke.....	\$254,178,919	39.60	\$246,789,179	41.53	\$ 7,389,740
Merchandise.....	359,267,899	55.98	316,591,080	53.28	42,676,819
Total freight.....	613,446,818	95.58	563,380,259	94.81	50,066,559
Passenger.....	2,504,021	0.39	3,659,735	0.62	(1,155,714)
Mail.....	3,673,753	0.57	5,901,344	0.99	(2,227,591)
Express.....	196,434	0.03	744,620	0.13	(548,186)
All other transportation.....	8,610,616	1.34	7,627,171	1.28	983,445
Incidental and joint facility.....	13,407,384	2.09	12,865,259	2.17	542,125
Totals	641,839,026	100.00	594,178,388	100.00	47,660,638
Railway Operating Expenses:					
Maintenance of way and structures.....	67,368,101	10.50	57,705,528	9.71	9,662,573
Maintenance of equipment.....	102,802,739	16.02	94,549,762	15.91	8,252,977
Traffic.....	13,424,511	2.09	12,811,062	2.16	613,449
Transportation.....	233,973,761	36.45	220,712,107	37.15	13,261,654
Miscellaneous operations.....	565,545	0.09	691,308	0.12	(125,763)
General.....	29,464,491	4.59	29,668,327	4.99	(203,836)
Totals	447,599,148	69.74	416,138,094	70.04	31,461,054
Net Revenue from Railway Operations	194,239,878	30.26	178,040,294	29.96	16,199,584
Railway Tax Accruals:					
Federal income (Note 2).....	10,160,000	1.58	576,000	0.09	9,584,000
Railroad retirement.....	20,155,021	3.14	17,753,871	2.99	2,401,150
Unemployment insurance.....	5,814,476	0.91	5,815,636	0.98	(1,160)
Other.....	23,057,903	3.59	21,331,168	3.59	1,726,735
Totals	59,187,400	9.22	45,476,675	7.65	13,710,725
Railway Operating Income	135,052,478	21.04	132,563,619	22.31	2,488,859
Rents Payable: (Net)					
Hire of freight cars.....	26,103,504		26,008,588		94,916
Hire of other equipment.....	345,544		358,411		(12,867)
Joint facility rents.....	1,719,859		1,426,330		293,529
Totals	28,168,907		27,793,329		375,578
Net Railway Operating Income	106,883,571	16.65	104,770,290	17.63	2,113,281
Other Income:					
Income from lease of road and equipment.....	196,885		205,478		(8,593)
Miscellaneous rent income.....	1,822,145		1,603,501		218,644
Income from non-operating property.....	505,165		491,474		13,691
Dividend income.....	5,950,344		3,841,538		2,108,806
Interest income.....	5,389,235		5,930,982		(541,747)
Income from sinking and other reserve funds.....	204,013		463,145		(259,132)
Release of premium on funded debt.....	56,157		57,267		(1,110)
Miscellaneous income.....	4,672,583		1,714,935		2,957,648
Totals	18,796,527		14,308,320		4,488,207
Total Income	125,680,098		119,078,610		6,601,488
Miscellaneous Deductions From Income:					
Miscellaneous tax accruals.....	285,036		270,722		14,314
Miscellaneous.....	4,257,171		2,582,908		1,674,263
Totals	4,542,207		2,853,630		1,688,577
Income Available for Fixed Charges	121,137,891	18.87	116,224,980	19.56	4,912,911
Fixed Charges:					
Rent for leased roads and equipment.....	14,198,083		14,275,719		(77,636)
Interest on funded debt—Fixed interest.....	29,543,345		26,034,138		3,509,207
Interest on unfunded debt.....	1,425		27,218		(25,793)
Amortization of discount on funded debt.....	362,257		363,721		(1,464)
Total Fixed Charges	44,105,110	6.87	40,700,796	6.85	3,404,314
Income After Fixed Charges	77,032,781	12.00	75,524,184	12.71	1,508,597
Other Deductions:					
Contingent Interest—Income Debentures.....	2,891,443	0.45	2,917,181	0.49	(25,738)
Net Income	74,141,338	11.55	72,607,003	12.22	1,534,335

See Notes, pages 24-27.

Norfolk and Western Railway Company

BALANCE SHEET

ASSETS

	December 31	
	1968	1967
Current Assets:		
Cash.....	\$ 8,826,979	\$ 8,629,684
Temporary cash investments.....	70,836,517	58,482,050
Special deposits.....	473,303	456,191
Loans and notes receivable.....	442,306	508,683
Traffic and car service balances.....	4,236,144	5,125,579
Net balance receivable from agents and conductors.....	17,857,392	8,755,785
Miscellaneous accounts receivable.....	12,880,757	12,705,748
Interest and dividends receivable.....	807,078	716,654
Accrued accounts receivable.....	21,087,760	29,449,446
Working fund advances.....	167,285	175,450
Prepayments.....	1,046,918	1,045,866
Material and supplies.....	19,465,060	22,253,119
Other current assets.....	18,054,416	17,225,961
Total Current Assets	176,181,915	165,530,216
Special Funds:		
Sinking funds for retirement of mortgage bonds (<i>See details, page 33</i>).....	16,083,365	15,443,138
Less: Norfolk and Western Railway Company issues—par value.....	15,571,100	13,731,100
	512,265	1,712,038
Capital and other funds.....	4,791,182	4,344,526
Total Special Funds	5,303,447	6,056,564
Investments:		
Investments in affiliated companies (<i>See details, pages 34 and 35</i>).....	205,001,594	106,977,988
Other investments (<i>See details, page 35</i>).....	3,637,050	8,632,492
Reserve for adjustment of investments in securities.....	Cr. 805,551	Cr. 817,867
Total Investments	207,833,093	114,792,613
Properties:		
Road and equipment property:		
Road.....	798,621,807	786,722,604
Equipment.....	1,127,847,535	1,099,939,159
Other elements of investment.....	86,097,817	90,872,988
Construction work in progress.....	9,243,833	7,460,181
	2,021,810,992	1,984,994,932
Improvements on leased property:		
Road.....	137,342	159,741
Equipment.....	—	116,478
	137,342	276,219
Total Transportation Property.....	2,021,948,334	1,985,271,151
Accrued depreciation—Road.....	Cr. 84,687,767	Cr. 78,455,157
Accrued depreciation—Equipment.....	Cr. 349,803,730	Cr. 321,720,900
Accrued amortization of defense projects—Road.....	Cr. 4,280,164	Cr. 4,281,502
Accrued amortization of defense projects—Equipment.....	Cr. 5,709,173	Cr. 10,187,048
Total Depreciation and Amortization.....	Cr. 444,480,834	Cr. 414,644,607
Total Transportation Property, Less Depreciation and Amortization.....	1,577,467,500	1,570,626,544
Miscellaneous physical property.....	20,167,226	20,213,215
Accrued depreciation.....	Cr. 6,132,425	Cr. 5,972,425
Miscellaneous physical property, less depreciation.....	14,034,801	14,240,790
Total Properties, Less Depreciation and Amortization	1,591,502,301	1,584,867,334
Other Assets and Deferred Charges:		
Other assets.....	4,950,963	4,390,054
Unamortized discount on long-term debt.....	2,158,935	2,377,293
Other deferred charges.....	13,817,439	13,272,427
Total Other Assets and Deferred Charges	20,927,337	20,039,774
Total Assets	2,001,748,093	1,891,286,501

Norfolk and Western Railway Company

BALANCE SHEET

LIABILITIES AND SHAREOWNERS' EQUITY

	December 31	
	1968	1967
Current Liabilities:		
Audited accounts and wages payable.....	\$ 13,386,992	\$ 14,657,889
Miscellaneous accounts payable.....	5,866,454	4,811,283
Interest matured unpaid.....	2,080,214	1,797,253
Dividends matured unpaid.....	20,022	20,022
Unmatured interest accrued.....	5,809,108	5,589,219
Accrued accounts payable.....	39,172,425	35,162,033
Federal income taxes accrued.....	16,760,792	12,561,518
Other taxes accrued.....	34,261,699	34,355,504
Other current liabilities.....	3,807,076	364,744
Total Current Liabilities	121,164,782	109,299,472
Long-Term Debt Due Within One Year: <i>(See details, pages 37 and 38)</i>		
Mortgage bonds.....	2,424,000	673,000
Equipment obligations.....	44,542,218	43,870,336
Income debentures.....	907,000	—
Other.....	145,313	186,964
Total Long-Term Debt Due Within One Year	48,018,531	44,730,300
Long-Term Debt Due After One Year: <i>(See details, pages 37 and 38)</i>		
Mortgage bonds.....	165,859,300	172,222,400
Equipment obligations.....	389,841,995	386,069,213
Income debentures.....	53,498,700	55,278,000
Promissory notes.....	6,000,000	7,650,000
Subordinated debentures.....	41,600,000	31,200,000
Other.....	—	145,313
Total Long-Term Debt Due After One Year	656,799,995	652,564,926
Reserves:		
Pension and welfare reserves.....	4,456,744	5,244,203
Insurance reserves.....	511,076	438,983
Reserve for loss and damage and personal injury claims.....	976,813	2,151,903
Reserve for freight overcharge claim payments.....	1,501,364	1,386,799
Total Reserves	7,445,997	9,221,889
Other Liabilities and Deferred Credits:		
Accounts with leased companies.....	52,833,057	57,708,994
Other liabilities.....	4,584,704	3,500,013
Unamortized premium on long-term debt.....	1,370,173	1,452,353
Purchase contract—equipment <i>(Note 7)</i>	3,400,116	7,702,683
Other deferred credits.....	6,604,558	5,902,398
Accrued depreciation—leased property.....	63,507	83,527
Total Other Liabilities and Deferred Credits	68,856,115	76,349,978
Shareowners' Equity:		
Capital Stock:		
Common.....	234,947,425	226,562,123
Outstanding December 31, 1968—9,397,897 shares \$25 par value		
Outstanding December 31, 1967—9,062,485 shares \$25 par value		
Stock liability for conversion <i>(Note 1)</i>	55,025,760	—
Capital surplus.....	44,278,339	13,166,924
Retained income—Appropriated:		
Sinking fund reserve.....	16,962,248	16,321,580
Retained income—Unappropriated <i>(See details, page 32)</i>	748,248,901	743,069,303
Total Shareowners' Equity	1,099,462,673	999,119,940
Total Liabilities and Shareowners' Equity	2,001,748,093	1,891,286,501

Norfolk and Western Railway Company

CAPITAL SURPLUS AND RETAINED INCOME

	1968	1967
Capital Surplus:		
Balance January 1	<u>\$ 13,166,924</u>	<u>\$ 18,716,523</u>
Addition:		
Premium on capital stock issued	<u>31,111,415*</u>	<u>13,694</u>
	<u>44,278,339</u>	<u>18,730,217</u>
Deduction:		
Premium on capital stock reacquired (Note 3)	<u>—</u>	<u>5,563,293</u>
Balance, December 31	<u>44,278,339</u>	<u>13,166,924</u>
Retained Income—Appropriated:		
Balance, January 1	<u>16,321,586</u>	<u>15,717,906</u>
Sinking fund appropriations	<u>640,662</u>	<u>603,680</u>
Balance, December 31	<u>16,962,248</u>	<u>16,321,586</u>
Retained Income—Unappropriated:		
Balance, January 1	<u>743,069,305</u>	<u>742,077,297</u>
Additions:		
Net income for year	<u>74,141,338</u>	<u>72,607,003</u>
Retained Income of Wabash Motor Transit Company at merger effective January 3, 1967	<u>—</u>	<u>102,481</u>
Total Additions	<u>74,141,338</u>	<u>72,709,484</u>
Deductions:		
Dividends declared—Common stock	<u>55,137,868</u>	<u>55,094,295</u>
Appropriation for sinking fund reserve	<u>640,662</u>	<u>603,680</u>
Adjustment of investment in road and equipment (Note 4)	<u>4,783,212</u>	<u>4,782,794</u>
Premium on capital stock reacquired (Note 3)	<u>8,400,000</u>	<u>11,236,707</u>
Total Deductions	<u>68,961,742</u>	<u>71,717,476</u>
Balance, December 31	<u>748,248,901</u>	<u>743,069,305</u>
Total Capital Surplus and Retained Income	<u>809,489,488</u>	<u>772,557,815</u>

*Includes premium of \$30,947,025 from inclusion of Delaware and Hudson Railway Company in Norfolk and Western System (Note 1).

Norfolk and Western Railway Company

DIVIDENDS DECLARED

Payable	Stock of Record	Per Share	Outstanding Stock Par Value	Amount of Dividend
Common Stock:				
March 11, 1968.....	February 8, 1968.....	\$1.50	\$224,562,125	\$13,473,710
June 10, 1968.....	May 9, 1968.....	1.50	224,562,125	13,473,710
September 10, 1968.....	August 8, 1968.....	1.50	234,892,800	14,093,520
December 10, 1968.....	November 8, 1968.....	1.50	234,947,425	14,096,813
		<u>\$6.00</u>		<u>\$55,137,853</u>

SINKING FUNDS FOR RETIREMENT OF FUNDED DEBT

Balance, January 1..... \$15,443,100

Additions:

Income from investments in fund..... \$ 640,662
Sinking fund requirements..... 3,379,100
19,462,900

Deductions:

Cost of bonds reacquired and canceled..... 3,379,500
Balance, December 31..... 16,083,300

Assets in Fund

Securities

The Scioto Valley and New England First Mortgage Bonds 4%—Par Value..... 2,746,000
Norfolk and Western First Consolidated Mortgage Bonds 4%—Par Value..... 12,825,100
Municipal Bonds—Cost..... 510,000
Total Securities..... 16,081,100

Cash Balance..... 2,200,000
Total Assets..... \$16,083,300

Retained Income—Appropriated, Sinking Fund Reserve, \$16,962,248, includes excess of cost over transfer value of sinking fund assets.

Norfolk and Western Railway Company

INVESTMENTS

	Par Value	Book Value
Temporary Cash Investments:		
Commercial discount notes.....	\$59,500,000	\$ 59,069,051
State and municipal obligations.....	12,545,000	11,767,466
Total Temporary Cash Investments		<u>70,836,517</u>
Investments in Affiliated Companies:		
Stocks:		
The Akron, Canton & Youngstown Railroad Company.....	No Par	6,750,628
American Refrigerator Transit Company—Pledged.....	145,000	469,045
Belt Railway Company of Chicago—Pledged.....	240,000	240,000
Chesapeake Western Railway.....	600,000	204,286
Chicago and Western Indiana Railroad Company—Pledged.....	1,000,000	1,000,000
The Cincinnati Union Terminal Company.....	500,000	500,000
The Cleveland Union Terminals Company—Pledged.....	\$ 400	
The Cleveland Union Terminals Company—Unpledged.....	300	
Dereco, Inc.....	700	700
Des Moines Union Railway Company—Pledged.....	29,041,020	97,288,460
The Detroit and Toledo Shore Line Railroad Company.....	200,000	820,076
Fairport, Painesville and Eastern Railway Company.....	1,500,000	715,050
Fort Wayne Union Railway Company—Pledged.....	No Par	1,000,000
Fruit Growers Express Company.....	40,000	40,016
Green Real Estate Company—Pledged.....	133,600	73,000
Illinois Terminal Railroad Company.....	No Par	1,605,267
Kansas City Terminal Railway Company—Pledged.....	3,636	3,637
Keokuk Union Depot Company—Pledged.....	183,333	1
The Lake Erie and Fort Wayne Railroad Company—Pledged.....	20,000	4,000
Lake Erie Dock Company.....	100,000	70,000
The Lorain & West Virginia Railway Company—Pledged.....	No Par	1,000
The Lorain & West Virginia Railway Company—Unpledged.....	\$1,999,300	
New Jersey, Indiana & Illinois Railroad Company—Pledged.....	700	
Nickel Plate Development, Inc.....	2,000,000	500,200
The Nickel Plate Improvement Company, Inc.....	825,000	1,500,000
The Nickel Plate Properties Company, Inc.....	No Par	1,800,016
Norfolk and Portsmouth Belt Line Railroad Company.....	10,000	10,008
Norfolk, Franklin and Danville Railway Company.....	10,000	10,008
Norfolk Terminal Railway Company—Pledged.....	14,400	20,617
Norfolk Terminal Railway Company—Unpledged.....	1,500,000	1,500,000
Packers Car Line Company.....	\$ 37,500	
Peoria and Pekin Union Railway Company.....	38,400	
Pittsburgh, Akron & Western Railroad Company.....	75,900	50,600
Pocahontas Land Corporation.....	640	640
The Pullman Company.....	150,000	156,520
Railway Express Agency, Inc.—Pledged.....	20,000	1
Railway Express Agency, Inc.—Unpledged.....	1,000,000	1,956,920
Shenandoah-Virginia Corporation.....	151,860	204,399
South Buffalo Development Company, Inc.....	\$ 24,912	
State Line Connecting Railway Company.....	29,064	
Terminal Railroad Association of St. Louis—Pledged.....	53,976	2,650
The Toledo Belt Railway Company—Pledged.....	1,000	1,000
The Toledo Terminal Railroad Company.....	No Par	1,000
Trailer Train Company.....	500	1
Virginia Holding Corporation.....	205,800	330,000
The Wheeling and Lake Erie Railway Company—Common.....	300,000	238,440
The Wheeling and Lake Erie Railway Company—Prior Lien.....	387,200	16
Winston-Salem Southbound Railway Company—Pledged.....	1,500	172,840
Winston-Salem Southbound Railway Company—Unpledged.....	100,000	155,000
Winston-Salem Terminal Company.....	29,610,368	18,428,177
	11,564,217	11,108,931
	\$ 622,100	
	622,500	622,500
	1,000	1,000
		<u>149,556,650</u>

Norfolk and Western Railway Company

INVESTMENTS—Continued

	Par Value	Book Value
Investments in Affiliated Companies—Continued:		
Bonds:		
Chesapeake Western Railway.....	\$ 600,000	\$ 600,000
Erie Railroad Company.....	4,335,000	1,501,080
The Lorain & West Virginia Railway Company—Pledged.....	2,000,000	2,001,000
The Toledo Belt Railway Company—Pledged.....	500,000	224,250
The Wheeling and Lake Erie Railway Company.....	6,580,000	6,503,520
		<u>10,829,850</u>
Unsecured Notes:		
The Nickel Plate Improvement Company, Inc.—Non-interest bearing note.....	66,759	66,759
Pocahontas Land Corporation—Interest bearing note, prime rate.....	7,200,000	7,200,000
Railway Express Agency, Inc.—5% subordinated note.....	751,804	751,800
South Buffalo Development Company, Inc.—Non-interest bearing note.....	1,300,000	1,300,000
Trailer Train Company—6½ % note.....	900,000	900,000
		<u>10,218,560</u>
Investment Advances:		
The Belt Railway Company of Chicago.....		312,340
Chicago and Western Indiana Railroad Company.....		7,377,640
The Cincinnati Union Terminal Company.....		795,070
The Cleveland Union Terminals Company.....		514,770
Des Moines Union Railway Company.....		548,350
Fairport, Painesville and Eastern Railway Company.....		67,790
Kansas City Terminal Railway Company.....		1,197,010
Lake Erie Dock Company.....		4,000
The Nickel Plate Improvement Company, Inc.....		3,377,260
The Nickel Plate Properties Company, Inc.....		129,130
Norfolk and Portsmouth Belt Line Railroad Company.....		250,000
Norfolk, Franklin and Danville Railway Company.....		658,980
Norfolk Terminal Railway Company.....		874,260
South Buffalo Development Company, Inc.....		25,000
Virginia Holding Corporation.....		15,872,760
Winston-Salem Southbound Railway Company.....		2,350,130
Winston-Salem Terminal Company.....		41,970
		<u>34,396,520</u>
Total Investments in Affiliated Companies		<u>205,001,590</u>
Other Investments:		
Amship, Inc.....Stock	443	4,420
Amship, Inc.....Note	13,280	13,280
Amship, Inc.....Advances		7,240
The Ann Arbor Railroad Company Conditional Sales Agreement, December 31, 1957.....	125,668	125,660
A. H. Bull Steamship Company.....Notes	56,359	56,350
City of Cleveland.....Purchase Money Mortgage	1,926,255	1,926,250
Falls Mills Fishing Club.....Notes	59,500	59,500
Fort Street Union Depot.....Advances		22,000
Raillease, Inc.....Advances		189,800
Roanoke Valley Development Corporation.....Stock	200,000	200,000
St. Louis Produce Market.....Notes	56,250	56,250
Sovereign Coal Corporation.....Note	57,000	57,000
Union Belt of Detroit.....Advances		39,930
Virginia Industrial Development Corporation.....Stock	150,000	150,000
Voss Steel Corporation.....Notes	38,304	38,300
Wabash Railroad Company.....Preferred Stock	650,000	534,310
Wabash Railroad Company.....Bonds	140,000	112,540
Miscellaneous.....	43,239	44,170
Total Other Investments		<u>3,637,050</u>

Norfolk and Western Railway Company

CHANGES IN INVESTMENT IN ROAD AND EQUIPMENT PROPERTY—1968

	Expenditures for Additions and Betterments *	Credits for Retirement or Disposition of Property	Net Additions
Road :			
Engineering.....	\$ 448,883	\$ 46,195	\$ 402,688
Land for transportation.....	266,562	162,481	104,081
Other right-of-way expenditures.....	(1,381)	93	(1,474)
Grading.....	2,380,683	73,846	2,306,837
Tunnels and subways.....	1,411,899	—	1,411,899
Bridges, trestles and culverts.....	1,224,250	82,466	1,141,784
Ties.....	336,526	71,071	265,455
Rails.....	627,645	49,414	578,231
Other track material.....	409,636	86,669	322,967
Ballast.....	210,836	22,802	188,034
Track laying and surfacing.....	1,071,251	68,227	1,003,024
Fences, snowsheds and signs.....	14,272	23	14,249
Station and office buildings.....	496,443	306,723	189,720
Roadway buildings.....	94,509	26,625	67,884
Water stations.....	(57,255)	1,767	(59,022)
Fuel stations.....	61,266	17,395	43,871
Shops and enginehouses.....	538,248	58,517	479,731
Coal and ore wharves.....	827,700	15,797	811,903
Communication systems.....	90,629	52,240	38,389
Signals and interlockers.....	866,264	163,806	702,458
Power plant.....	(42)	3,897	(3,939)
Power transmission systems.....	20,428	13,886	6,542
Miscellaneous structures.....	4,437	491	3,946
Roadway machines.....	1,012,232	155,040	857,192
Roadway small tools.....	216	—	216
Public improvements—Construction.....	717,009	39,534	677,475
Other expenditures—Road.....	6,611	—	6,611
Shop machinery.....	776,185	367,487	408,698
Power plant machinery.....	(56,582)	36,063	(92,645)
Total Expenditures for Road	<u>13,799,360</u>	<u>1,922,555</u>	<u>11,876,805</u>
Equipment:			
Other locomotives.....	680,405	835,927	(155,522)
Freight-train cars.....	50,752,844	20,836,521	29,916,323
Passenger-train cars.....	(7,911)	1,297,920	(1,305,831)
Floating equipment.....	6,245	—	6,245
Work equipment.....	221,272	338,263	(116,991)
Miscellaneous equipment.....	938,723	1,491,049	(552,326)
Total Expenditures for Equipment	<u>52,591,578</u>	<u>24,799,680</u>	<u>27,791,898</u>
Other Elements of Investment.....	<u>(4,775,171)</u>	<u>—</u>	<u>(4,775,171)</u>
Construction Work in Progress.....	<u>1,783,651</u>	<u>—</u>	<u>1,783,651</u>
Grand Total	<u>63,399,418</u>	<u>26,722,235</u>	<u>36,677,183</u>

*Excludes additions and betterments to properties of leased lines.

Norfolk and Western Railway Company

LONG-TERM DEBT

Mortgage Bonds:	Date of Maturity	Held By Company	Outstanding Dec. 31, 1968	Due in 1969
The New York, Chicago and St. Louis Railroad Company				
Refunding Mortgage Bonds:				
Series E, 3¼ %	June 1, 1980	\$ 80,000	\$ 43,033,000	\$ 744,000
Series F, 3%	Apr. 1, 1986	157,000	30,501,000	546,000
Series G, 3⅝ %	Mar. 1, 1978	343,000	7,921,000	
Norfolk and Western Railway Company				
First Consolidated Mortgage 4% Bonds	Oct. 1, 1996	13,195,200	27,871,300	
The Scioto Valley and New England Railroad Company				
First Mortgage 4% Bonds	Nov. 1, 1989	2,746,000	2,254,000	
The Virginian Railway Company				
First Lien and Refunding Mortgage Bonds:				
Series B, 3%	May 1, 1995	619,000	41,351,000	1,025,000
Series C, 3¼ %	Oct. 1, 1973	56,000	6,468,000	109,000
Series E, 3⅝ % (Nominally Issued)	Dec. 1, 1980	6,000,000		
Series F, 4%	May 1, 1983	520,000	8,884,000	
Total Mortgage Bonds		23,716,200	168,283,300	2,424,000
Income Bonds:				
The New York, Chicago and St. Louis Railroad Company				
Thirty-Five Year 4½ % Income Debentures	Dec. 31, 1989	67,000	24,187,000	907,000
Norfolk and Western Railway Company				
4.85% Subordinated Income Debentures	Nov. 15, 2015		4,157,100	
The Virginian Railway Company				
6% Subordinated Income Debentures	Aug. 1, 2008	815,300	26,061,600	
Total Income Bonds		882,300	54,405,700	907,000
Debentures:				
Norfolk and Western Railway Company				
Fifteen Year 4⅝ % Subordinated Debentures	Oct. 1, 1981		10,400,000	
Fifteen Year 4⅝ % Subordinated Debentures	June 1, 1982		10,400,000	
Fifteen Year 4⅝ % Subordinated Debentures	Dec. 1, 1982		10,400,000	
Fifteen Year 4⅝ % Subordinated Debentures	Jan. 1, 1983		10,400,000	
Total Debentures			41,600,000	
Equipment Obligations:				
Equipment Trust Certificates:		Serially to:		
The New York, Chicago and St. Louis Railroad Company				
Second Series 1954, 2½ %	Nov. 1, 1969		68,000	68,000
Series 1955, 2⅞ %	June 15, 1970		408,000	272,000
Series 1956, 3⅞ %	June 1, 1971		625,000	250,000
Second Series 1956, 3⅞ %	Aug. 1, 1971		804,000	268,000
Series 1957, 3¾ %	Mar. 15, 1972		1,498,000	428,000
Series 1958, 3⅞ %	Feb. 15, 1973		1,539,000	342,000
Series 1959, 4⅞ %	Jan. 15, 1974		1,804,000	328,000
Series 1960, 4⅞ %	May 1, 1975		3,003,000	462,000
Series 1962, 4⅞ %	Feb. 15, 1972		1,155,000	330,000
Second Series 1962, 4⅞ %	Sept. 1, 1972		1,040,000	260,000
Series 1963, 4⅞ %	Oct. 15, 1978		4,360,000	436,000
Norfolk and Western Railway Company				
Series A, 3½ %	Feb. 1, 1972		1,540,000	440,000
Series A, 3⅞ %	Feb. 1, 1972		1,764,000	504,000
Series B, 4⅞ %	June 1, 1972		2,016,000	576,000
Series B, 4¼ %	June 1, 1972		994,000	284,000
Series C, 3⅞ %	Nov. 1, 1972		1,056,000	264,000
Series C, 3⅞ %	Nov. 1, 1972		1,104,000	276,000
Series C, 4⅞ %	Nov. 1, 1972		1,096,000	274,000

Norfolk and Western Railway Company

LONG-TERM DEBT—Continued

	Date of Maturity	Held By Company	Outstanding Dec. 31, 1968	Due in 1969
Equipment Obligations—Continued:				
Equipment Trust Certificates:	Serially to:			
Norfolk and Western Railway Company—Continued				
Series D, 3¼ %	Apr. 1, 1973	\$	\$ 1,431,000	\$ 318,000
Series D, 3½ %	Apr. 1, 1973		693,000	154,000
Series E, 3¾ %	Oct. 1, 1973		2,200,000	440,000
Series E, 4 %	Oct. 1, 1973		2,480,000	496,000
Series F, 3¾ %	Nov. 1, 1973		2,230,000	446,000
Series F, 4 %	Nov. 1, 1973		1,730,000	346,000
Series G, 4½ %	Apr. 1, 1974		2,695,000	490,000
Series G, 4½ %	Apr. 1, 1974		1,947,000	354,000
Series H, 4½ %	Aug. 1, 1977		4,770,000	530,000
Series I, 3¾ %	Jan. 1, 1978		7,080,000	708,000
Series J, 4 %	May 1, 1978		2,940,000	294,000
Series K, 4 %	July 1, 1978		4,500,000	450,000
Series K, 4½ %	July 1, 1978		4,500,000	450,000
Series L, 4½ %	Nov. 1, 1978		5,150,000	515,000
Series L, 4¼ %	Nov. 1, 1978		5,050,000	505,000
Series M, 4¼ %	Apr. 1, 1979		6,270,000	570,000
Series M, 4½ %	Apr. 1, 1979		7,260,000	660,000
Series N, 4½ %	Aug. 1, 1979		9,130,000	830,000
Series O, 4½ %	Jan. 1, 1981		5,850,000	450,000
Series O, 5½ %	Jan. 1, 1981		5,720,000	440,000
Series P, 5 %	Apr. 1, 1981		9,620,000	740,000
Series P, 5½ %	Apr. 1, 1981		9,555,000	735,000
The Virginian Railway Company				
Series D, 2¾ %	Feb. 1, 1969		280,000	280,000
Series E, 3¾ %	Oct. 1, 1971		720,000	240,000
Series F, 3¾ %	Apr. 15, 1972		320,000	80,000
Wabash Railroad Company				
Series F, 2¾ %	May 1, 1970		204,000	102,000
Series G, 3 %	Apr. 1, 1971		1,662,000	554,000
Series H, 4 %	Jan. 15, 1972		1,008,000	252,000
Series H, 4½ %	Jan. 15, 1972		1,764,000	441,000
Series I, 4¼ %	Oct. 1, 1972		732,000	183,000
Series J, 4¾ %	Sept. 1, 1974		600,000	100,000
Series K, 4¼ %	Mar. 15, 1979		3,597,000	327,000
Conditional Sale and Equipment Loan Agreements:				
The New York, Chicago and St. Louis Railroad Company				
4¼ % to 4.55 %	1969—1979		8,983,597	951,836
Norfolk and Western Railway Company				
4 % to 7¼ %	1969—1983		264,613,399	20,374,211
Wabash Railroad Company				
4¼ % to 5½ %	1969—1979		20,698,874	3,147,828
Wabash Motor Transit Company				
4½ % to 6 %	1969		526,343	526,343
Total Equipment Obligations			434,384,213	44,542,218
Other Obligations:				
Promissory Note dated July 1, 1968—6 %	July 1, 1973		1,000,000	
Promissory Note dated July 24, 1968—				
Interest at prime rate	July 24, 1970		5,000,000	
Deed of Trust—St. Louis Grain Elevator,				
dated September 1, 1954—5 %	Sept. 1, 1969		145,313	145,313
Total Long-Term Debt		24,598,500	704,818,526	48,018,531

See Note 6, page 26 for debt of leased lines assumed or guaranteed.

Norfolk and Western Railway Company

OPERATING REVENUES AND OPERATING EXPENSES

	Year Ended December 31		Increase or (Decrease)
	1968	1967	
Operating Revenues:			
Freight.....	\$613,446,818	\$563,380,259	\$50,066,559
Passenger.....	2,504,021	3,659,735	(1,155,714)
Baggage.....	8,025	10,034	(2,009)
Parlor and chair car.....	8,875	41,812	(32,937)
Mail.....	3,673,753	5,901,344	(2,227,591)
Express.....	196,434	744,620	(548,186)
Other passenger—train.....	22,004	17,440	4,564
Milk.....	813	1,973	(1,160)
Switching.....	8,570,899	7,555,912	1,014,987
Dining and buffet.....	252,882	347,128	(94,246)
Station, train and boat privileges.....	15,389	16,816	(1,427)
Storage—Freight.....	455,064	56,763	398,301
Demurrage.....	2,167,289	3,355,124	(1,187,835)
Communication.....	—	709	(709)
Rents of buildings and other property.....	442,190	411,283	30,907
Miscellaneous.....	9,484,647	7,934,159	1,550,488
Joint Facility—Net.....	589,923	743,277	(153,354)
Totals	641,839,026	594,178,388	47,660,638
Operating Expenses:			
Maintenance of Way and Structures:			
Superintendence.....	\$ 5,353,103	\$ 5,352,317	\$ 786
Roadway maintenance.....	4,836,014	3,921,295	914,719
Tunnels and subways.....	38,691	21,858	16,833
Bridges, trestles and culverts.....	1,468,171	1,372,700	95,471
Ties.....	3,762,433	2,212,585	1,549,848
Rails.....	3,078,527	2,300,385	778,142
Other track material.....	3,761,990	211,581	3,550,409
Ballast.....	1,235,741	1,149,678	86,063
Track laying and surfacing.....	13,913,968	12,280,736	1,633,232
Fences, snowsheds and signs.....	207,044	152,818	54,226
Station and office buildings.....	1,321,118	1,443,315	(122,197)
Roadway buildings.....	115,998	132,202	(16,204)
Water stations.....	64,577	41,474	23,103
Fuel stations.....	41,702	35,593	6,109
Shops and enginehouses.....	1,239,956	1,301,028	(61,072)
Wharves and docks.....	54,655	98,162	(43,507)
Coal and ore wharves.....	1,273,374	1,193,905	79,469
Communication systems.....	1,468,924	1,356,590	112,334
Signals and interlockers.....	3,235,485	2,871,790	363,695
Power plants.....	8,624	9,899	(1,275)
Power—transmission systems.....	137,039	134,944	2,095
Miscellaneous structures.....	15,629	8,290	7,339
Road Property—Depreciation.....	9,102,972	8,932,808	170,164
Retirements—Road.....	214,688	605,880	(391,192)
Roadway machines.....	2,606,491	1,997,014	609,477
Dismantling retired road property.....	144,861	253,893	(109,032)
Small tools and supplies.....	1,558,588	1,535,774	22,814
Removing snow, ice and sand.....	650,493	679,738	(29,245)
Public improvements—Maintenance.....	823,496	561,364	262,132
Injuries to persons.....	666,739	729,686	(62,947)
Insurance.....	681,455	541,040	140,415
Stationery and printing.....	105,079	98,445	6,634
Employees' health and welfare benefits.....	1,935,839	1,754,581	181,258
Right-of-way expenses.....	19,895	17,107	2,788
Other expenses.....	390,351	197,980	192,371
Maintaining joint tracks, yards and other facilities—Net.....	1,834,391	2,197,073	(362,682)
Totals	67,368,101	57,705,528	9,662,573
Ratio to total operating expenses.....	15.05	13.87	1.18
Ratio to operating revenues.....	10.50	9.71	0.79

Norfolk and Western Railway Company

OPERATING REVENUES AND OPERATING EXPENSES—Continued

	Year Ended December 31		Increase or (Decrease)
	1968	1967	
Operating Expenses—Continued:			
Maintenance of Equipment:			
Superintendence.....	\$ 3,804,259	\$ 3,504,232	\$ 300,027
Shop machinery.....	1,424,339	1,208,225	216,114
Power-plant machinery.....	112,116	87,587	24,529
Shop and power-plant machinery—Depreciation.....	570,382	579,884	(9,502)
Dismantling retired shop and power-plant machinery.....	6,098	28,421	(22,323)
Locomotives—Repairs.....	18,347,784	16,553,130	1,794,654
Freight-train cars—Repairs.....	23,450,120	21,105,756	2,344,364
Passenger-train cars—Repairs.....	1,154,041	1,661,976	(507,935)
Floating equipment—Repairs.....	382,541	678,589	(296,048)
Work equipment—Repairs.....	776,745	792,972	(16,227)
Miscellaneous equipment—Repairs.....	1,119,797	1,032,590	87,207
Dismantling retired equipment.....	17,188	43,295	(26,107)
Retirements—Equipment.....	Cr. 1,723,883	Cr. 1,891,085	167,202
Equipment—Depreciation.....	44,617,948	41,577,022	3,040,926
Injuries to persons.....	1,013,788	898,277	115,511
Insurance.....	5,127,319	4,605,311	522,008
Stationery and printing.....	104,083	114,741	(10,658)
Employees' health and welfare benefits.....	2,160,980	1,895,222	265,758
Other expenses.....	174,326	152,735	21,591
Joint maintenance of equipment expenses—Net.....	162,768	(79,118)	241,886
Totals	102,802,739	94,549,762	8,252,977
Ratio to total operating expenses.....	22.97	22.72	0.25
Ratio to operating revenues.....	16.02	15.91	0.11
Traffic:			
Superintendence.....	\$ 3,991,080	\$ 4,241,831	\$ (250,751)
Outside agencies.....	6,934,969	6,290,527	644,442
Advertising.....	421,843	235,521	186,322
Traffic association.....	457,726	424,829	32,897
Industrial and immigration bureaus.....	417,901	387,558	30,343
Insurance.....	8,939	11,263	(2,324)
Stationery and printing.....	418,529	500,146	(81,617)
Employees' health and welfare benefits.....	631,165	581,691	49,474
Other expenses.....	142,359	137,696	4,663
Totals	13,424,511	12,811,062	613,449
Ratio to total operating expenses.....	3.00	3.08	(0.08)
Ratio to operating revenues.....	2.09	2.16	(0.07)
Transportation—Rail Line:			
Superintendence.....	\$ 9,867,529	\$ 8,524,860	\$ 1,342,669
Dispatching trains.....	2,691,411	2,448,929	242,482
Station employees.....	20,654,925	19,881,180	773,745
Weighing, inspection and demurrage bureaus.....	627,920	608,014	19,906
Coal and ore wharves.....	4,584,654	3,768,644	816,010
Station supplies and expenses.....	1,908,528	1,864,348	44,180
Yardmasters and yard clerks.....	14,026,286	13,595,012	431,274
Yard conductors and brakemen.....	27,889,910	26,086,207	1,803,703
Yard switch and signal tenders.....	1,813,365	1,638,368	174,997
Yard enginemen.....	13,537,701	13,641,473	(103,772)
Yard switching fuel.....	2,293,390	2,113,282	180,108
Water for yard locomotives.....	12,472	14,289	(1,817)
Lubricants for yard locomotives.....	129,853	304,780	(174,927)
Other supplies for yard locomotives.....	146,610	196,901	(50,291)
Enginehouse expenses—Yard.....	1,257,652	1,239,467	18,185
Yard supplies and expenses.....	1,203,884	1,231,915	(28,031)

Norfolk and Western Railway Company

OPERATING REVENUES AND OPERATING EXPENSES—Concluded

	Year Ended December 31		Increase or (Decrease)
	1968	1967	
Operating Expenses—Concluded:			
Transportation—Rail Line—Concluded:			
Train enginemn.....	\$ 18,422,989	\$ 18,254,971	\$ 168,018
Train fuel.....	20,572,623	19,500,828	1,071,795
Water for train locomotives.....	82,955	77,440	5,515
Lubricants for train locomotives.....	913,294	1,135,175	(221,881)
Other supplies for train locomotives.....	461,619	459,144	2,475
Enginehouse expenses—Train.....	4,566,660	4,189,759	376,901
Trainmen.....	27,883,498	26,660,145	1,223,353
Train supplies and expenses.....	18,978,183	17,535,809	1,442,374
Operating sleeping cars.....	252,561	285,059	(32,498)
Signal and interlocker operation.....	2,556,191	2,364,638	191,553
Crossing protection.....	1,511,523	1,398,773	112,750
Drawbridge operation.....	317,971	298,497	19,474
Communication system operation.....	2,103,460	2,013,279	90,181
Operating floating equipment.....	1,561,193	1,319,772	241,421
Employees' health and welfare benefits.....	6,161,882	5,482,511	679,371
Stationery and printing.....	1,418,018	1,254,599	163,419
Other expenses.....	1,216,755	(161,206)	1,377,961
Insurance.....	3,744,309	3,215,542	528,767
Clearing wrecks.....	776,361	713,462	62,899
Damage to property.....	272,323	226,435	45,888
Damage to livestock on right-of-way.....	22,039	19,910	2,129
Loss and damage—Freight.....	8,826,129	8,038,606	787,523
Loss and damage—Baggage.....	479	331	148
Injuries to persons.....	4,127,705	4,940,471	(812,766)
Operating joint yards and terminals—Net.....	4,332,164	3,980,233	351,931
Operating joint tracks and facilities—Net.....	244,787	350,255	(105,468)
Totals	233,973,761	220,712,107	13,261,654
Ratio to total operating expenses.....	52.27	53.04	(0.77)
Ratio to operating revenues.....	36.45	37.15	(0.70)
Miscellaneous Operations:			
Dining and buffet service.....	\$ 516,621	\$ 647,399	\$ (130,778)
Operating joint miscellaneous facilities.....	9,531	8,502	1,029
Employees' health and welfare benefits.....	39,393	35,407	3,986
Totals	565,545	691,308	(125,763)
Ratio to total operating expenses.....	0.13	0.16	(0.03)
Ratio to operating revenues.....	0.09	0.12	(0.03)
General:			
Salaries and expenses of general officers.....	\$ 4,277,368	\$ 4,118,293	\$ 159,075
Salaries and expenses of clerks and attendants.....	11,961,246	11,244,928	716,318
General office supplies and expenses.....	2,932,632	2,472,627	460,005
Law expenses.....	2,824,234	2,391,667	432,567
Insurance.....	14,829	10,972	3,857
Employees' health and welfare benefits.....	811,736	740,749	70,987
Pensions.....	1,062,079	1,180,334	(118,255)
Stationery and printing.....	952,381	816,895	135,486
Other expenses.....	4,249,957	6,290,018	(2,040,061)
General joint facilities—Net.....	378,029	401,844	(23,815)
Totals	29,464,491	29,668,327	(203,836)
Ratio to total operating expenses.....	6.58	7.13	(0.55)
Ratio to operating revenues.....	4.59	4.99	(0.40)
Total Operating Expenses	\$447,599,148	\$416,138,094	\$31,461,054
Ratio to operating revenues.....	69.74	70.04	(0.30)

Norfolk and Western Railway Company

TRAFFIC AND OPERATING STATISTICS

	1968	1967	Increase or (Decrease)
General Operating Results:			
Average miles of road operated.....	7,583	7,587	(4)
Operating revenues per mile of road operated.....	\$ 84,642	\$ 78,315	\$ 6,327
Operating expenses per mile of road operated.....	59,027	54,849	4,178
Net revenues per mile of road operated.....	25,615	23,466	2,149
Revenue Freight Traffic:			
Average miles of road operated.....	7,545	7,549	(4)
Tons carried.....	165,333,602	161,414,660	3,918,942
Tons carried one mile (thousands).....	51,395,759	49,038,891	2,356,868
Tons carried one mile per mile of road operated.....	6,811,896	6,496,078	315,818
Average distance carried (miles).....	310.86	303.81	7.05
Average revenue tons lading per train.....	2,448.93	2,398.79	50.14
Average revenue tons lading per loaded car mile.....	49.52	49.37	.15
Gross ton miles per train hour.....	92,690	91,133	1,557
Freight Revenue.....	\$ 613,446,818	\$ 563,380,259	\$ 50,066,559
Average per mile of road operated.....	81,305	74,630	6,675
Average per ton miles (cents).....	1.194	1.149	.045
Average per train miles.....	29.230	27.558	1.672
Average per loaded car mile.....	.591	.567	.024
Average per loaded and empty car mile.....	.323	.305	.018
Revenue Passenger Traffic:			
Average miles of road operated.....	1,727	1,727	—
Passengers carried.....	589,054	717,261	(128,207)
Passengers carried one mile.....	80,044,713	113,816,917	(33,772,204)
Passengers carried one mile per mile of road operated.....	46,349	65,904	(19,555)
Average distance carried (miles).....	135.89	158.68	(22.79)
Average passengers carried per train.....	35.40	39.98	(4.58)
Average passengers carried per car.....	5.55	4.66	.89
Passenger Revenue.....	\$ 2,504,021	\$ 3,659,735	\$ (1,155,714)
Average per mile of road operated.....	1,450	2,119	(669)
Average per mile (cents).....	3.128	3.215	(.087)
Average per train mile.....	1.108	1.286	(.178)
Average per car mile.....	.174	.150	.024
Train Miles:			
Freight.....	20,987,062	20,443,193	543,869
Passenger.....	2,260,902	2,846,901	(585,999)
Total Transportation Service	23,247,964	23,290,094	(42,130)
Locomotive Unit Miles:			
Freight.....	63,285,242	62,130,148	1,155,094
Passenger.....	3,513,181	5,749,984	(2,236,803)
Train switching—freight.....	4,294,050	4,109,568	184,482
Yard switching—freight.....	15,435,492	14,827,308	608,184
Yard switching—passenger.....	118,848	139,236	(20,388)
Total Transportation Service	86,646,813	86,956,244	(309,431)
Car Miles:			
Freight:			
Loaded.....	1,037,880,064	993,197,856	44,682,208
Empty.....	859,954,247	851,650,830	8,303,417
Caboose.....	20,291,223	19,829,897	461,326
Total Freight	1,918,125,534	1,864,678,583	53,446,951
Passenger:			
Coaches.....	4,981,104	6,579,651	(1,598,547)
Combination cars (mail, express or baggage with passenger).....	352,343	343,619	8,724
Sleeping and parlor cars.....	717,233	1,530,599	(813,366)
Dining, lounge and observation cars.....	1,215,875	1,829,897	(614,022)
Mail, express and baggage.....	6,946,526	13,936,504	(6,989,978)
Business Cars.....	199,638	222,872	(23,234)
Total Passenger	14,412,719	24,443,142	(10,030,423)
Total Transportation Service	1,932,538,253	1,889,121,725	43,416,528

Norfolk and Western Railway Company

MILES OF ROAD AND TRACK IN OPERATION

	Miles of Road	Miles of Additional Main Track	Miles of Yd. Tracks & Sidings	Total
Wholly owned.....	4,437.93	786.90	3,503.54	8,728.37
Owned but not operated.....	1.26	6.18		7.44
Total owned and operated	4,436.67	780.72	3,503.54	8,720.93
Operated but not owned:				
Trackage rights granted by other companies.....	586.95	361.12	729.19	1,677.26
Operated under lease or contract.....	2,561.16	259.99	1,675.54	4,496.69
Total operated at close of year	7,584.78	1,401.83	5,908.27	14,894.88
Total operated at beginning of year	7,583.34	1,402.96	5,877.96	14,864.26
Increase or (Decrease) during year.....	1.44	(1.13)	30.31	30.62

TRACK MILES OPERATED BY STATES

	Miles of Road		Miles of Additional Main Track		Miles of Yard Tracks and Sidings		Total	
	Mileage	Percent of Total	Mileage	Percent of Total	Mileage	Percent of Total	Mileage	Percent of Total
Virginia.....	1,553.92	20.49	225.85	16.11	1,152.72	19.51	2,932.49	19.69
West Virginia.....	718.15	9.47	210.67	15.03	673.33	11.40	1,602.15	10.76
Maryland.....	15.51	.20			24.71	.42	40.22	.27
North Carolina.....	115.30	1.52			54.99	.93	170.29	1.14
Kentucky.....	42.57	.56	.28	.02	74.56	1.26	117.41	.79
Ohio.....	1,576.24	20.78	371.62	26.51	1,622.60	27.46	3,570.46	23.97
New York.....	78.00	1.03	70.78	5.05	116.68	1.97	265.46	1.78
Canada.....	245.40	3.24	96.61	6.89	196.68	3.33	538.69	3.62
Michigan.....	120.31	1.59	63.92	4.56	171.48	2.90	355.71	2.39
Indiana.....	1,109.95	14.63	65.97	4.71	514.35	8.71	1,690.27	11.35
Illinois.....	1,005.83	13.26	189.83	13.54	786.17	13.31	1,981.83	13.31
Missouri.....	637.49	8.41	88.33	6.30	366.92	6.21	1,092.74	7.34
Iowa.....	211.10	2.78	3.36	.24	66.08	1.12	280.54	1.88
Nebraska.....	5.62	.07	5.62	.40	3.48	.06	14.72	.09
Pennsylvania.....	149.39	1.97	8.99	.64	83.52	1.41	241.90	1.62
Total.....	7,584.78	100.00	1,401.83	100.00	5,908.27	100.00	14,894.88	100.00

Norfolk and Western Railway Company

EQUIPMENT OPERATED

Kind of Equipment	Number of Units Operated December 31		Capacity of Equipment December 31	
	1968	1967	1968	1967
Locomotives (a)			(Horsepower)	
Freight.....	24	20	36,000	30,000
Passenger.....	2	2	4,500	4,500
Multiple Purpose.....	1,327	1,343	2,850,300	2,877,250
Switching.....	183	188	190,260	194,860
Totals	1,536	1,553	3,081,060	3,106,610
Passenger Car Equipment			(Seating Capacity)	
Passenger.....	79	85	5,060	5,452
Combination, passenger-baggage, express-baggage, mail baggage.....	82	137	176	282
Postal and mail storage.....	33	47		
Dining, lounge and observation.....	21	23	735	827
Sleepers.....	12	7	240	140
Box Express.....	14	17		
Totals	241	316	6,211	6,701
Freight Car Equipment (b)			(Tons)	
Box.....	26,193	27,683	1,432,577	1,502,959
Flat.....	3,400	3,075	211,322	180,487
Stock.....	250	416	12,605	19,295
Gondola.....	9,704	10,361	674,640	708,782
Hopper.....	66,966	68,042	4,827,127	4,766,022
Covered Hopper.....	5,502	5,620	456,636	464,529
Refrigerator.....	1,534	1,434	102,205	95,255
Rack.....	1,360	1,436	90,741	97,211
Tank.....	7	11	280	480
Other Freight Train Cars.....	247	264	16,915	20,080
Caboose.....	819	804		
Totals	115,982	119,146	7,825,048	7,855,100
Other Equipment				
Ferry Boat.....	3	3		
Business.....	12	11		
Ballast and Dump.....	137	138		
Derrick.....	27	27		
Boarding Outfit.....	225	231		
Snow Removing.....	1	1		
Wrecking.....	56	64		
Automobiles and Trucks.....	1,523	1,412		
Miscellaneous Work Equipment.....	1,701	1,698		
TOFC Trailers—Owned and under long-term lease.....	1,724	1,866		

(a) Excludes 6 Freight, 3 Switching and 10 Multiple Purpose Units leased to others.

(b) Includes 8,046 cars leased from others and excludes 194 cars leased to others.



A solid train of wheat in new covered hopper cars moves over the N&W. These cars carry an average of twice as much grain as cars formerly used for this purpose.

